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THE SOCIETY OF INCORPORATED ACCOUNTANTS

NOVEMBER 1956 *TWO SHILLINGS*

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of

Incorporated Accountants

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Members use the designation Incorporated Accountant. Fellows may also use the initial letters F.S.A.A., and Associates A.S.A.A.

Admission to membership is by examination subject to satisfactory completion of articles of clerkship for five years (university graduates three years.) Six years' approved professional experience may be accepted in lieu of five years' articles. Exemption from the Preliminary Examination is granted on production of certain educational certificates.

Articles may also be integrated with full-time study at certain universities. Under this scheme a specific university degree and the professional qualification can be attained in a total period of 5¾ years.

All candidates must pass the Intermediate and Final Examinations, except that graduates under the universities scheme are exempted from the Society's Intermediate Examination.

There are Branches of the Society in Scotland, Ireland, Canada, Australia, South Africa and Central Africa, and District Societies in all parts of England and Wales, Northern Ireland, and India. Students' Societies and Students' Sections operate throughout Great Britain, Northern Ireland, and Eire.

Members of the Society are not allowed to seek professional business by advertisements or circulars.

Accountancy

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Professional Notes

Moving Towards Economic Rents

ONE POLITICAL VIRTUE that Mr. Duncan Sandys has in abundance is courage. Another is determination. He will need both qualities in steering through the House of Commons the projected legislation to amend (and mend) the distorted structure of rent control. There will be violent opposition to the proposals of the Minister of Housing, but one feels that many who oppose will give private sighs of relief that someone, not themselves, is doing what so manifestly has to be done. And, after all, the plan of the official Opposition for "municipalisation" of housing would be bound, unless it were to be quite devoid of economic integrity, to result in higher rents generally.

The first stage in the bringing in of a more realistic pattern of rents was the cutting of subsidies on council houses a year or so ago. The pace at which municipal rents will be adjusted upwards mainly depends, however, upon the readiness of councils both to truncate their own subsidies to rents out of revenue from the rates and to relate to economic capacity the additional burden upon tenants by introducing schemes of differential rents.

The policy soon to be embarked upon will be in four parts. Owner-occupied houses numbering some five million, that now would be rent-controlled if let, are to be entirely free of the control. A "slice" of houses of the more expensive type is also to be de-controlled. Further, as houses of the cheaper type fall vacant, they too are to be de-controlled. Lastly, new rent ceilings, bearing "some reasonable relation to current values and maintenance costs", will be fixed for houses that remain subject to the control. The Minister appears to be intent upon ensuring that the adjustments are not carried through abruptly

and with drastic increases in rents: an essential proviso. It is to be hoped that, in the interests of this proviso, he will be moved to see that de-control on vacancy is not extended in the earlier stages to the cheapest houses, but is confined to the dearest and medium-priced ones. While much has been done, with the building of more than two million houses since the war, to relieve housing shortages, they are still very evident among the poorest members of the community. As to the lifting of the rent ceilings of houses still to be controlled, everything depends upon the scales to be fixed and the terms of their operation. For information on that, the Bill must be awaited.

The economic justification for the new policy lies, firstly, in the need to cause the "over-housed" to move out of their large houses on pain of paying more rent than under the present controls, so helping to relieve shortages. Secondly, it will enable much-needed repairs and improvements to be carried through by landlords—something in which the Act of three years ago has virtually failed. Thirdly, it will ease the absurd situation in which some tenants, the unlucky uncontrolled ones, including many who cannot afford it, are in effect subsidising others, the lucky controlled ones, who often are well able to pay the economic rent or something much nearer it than they now pay.

International Congress of Accountants 1957

INCORPORATED ACCOUNTANTS WHO propose to attend the Seventh International Congress of Accountants, to be held in Amsterdam from September 9 to 13 next year, are asked to write to the Secretary of the Society of Incorporated Accountants at Incorporated Accountants' Hall not later than December 15, 1956. Each member should give the following information for inclusion in the preliminary registration list which the Society has been asked to send to the Congress Committee: family name; Christian name; date of birth; where appropriate, offices held within the professional body; any other personal data; and, if a lady is accompanying the member, her name.

Those included in the preliminary list will receive from the Congress Committee during February a definite registration form, with a provisional programme and additional information. They are strongly advised to make their hotel reservations through the Congress Committee, which has already reserved accommodation at hotels in and near Amsterdam: provision for arranging the hotel accommodation will be included in the definite registration form.

The Congress will be held in the "Concertgebouw" at Amsterdam, and the Congress secretariat will have its office there from September 2. The languages to be used are English, French, German and Dutch. The provisional programme is as follows:

Monday, September 9
Morning: Registration.
Afternoon: Opening session.
Evening: Reception.
Tuesday, September 10
Morning: Business session: *Principles for the Accountants' Profession.*
Afternoon: Two business sessions (simultaneously): *The Verification of the Existence of Assets* and *Budgeting and the Corresponding Modernisation of Accounting.*
Evening: Concert by the "Concertgebouw" orchestra.
Wednesday, September 11
Morning: No Business session.
Afternoon: Two business sessions (simultaneously): *The Internal Auditor* and *Business Organisation and the Public Accountant.*
Evening: Round trip through the Amsterdam canals.
Thursday, September 12
Morning and Afternoon: Excursions.
Evening: Government Reception.
Friday, September 13
Morning: Business session: *Ascertainment of Profit in Business.*
Afternoon: Closing session.
Evening: Ball.

A programme for ladies is being arranged.

A Congress fee of 135 guilders (approximately £13) will be payable, as a contribution to the cost of the business sessions and of the record of the proceedings to be published after the Congress. This is in accordance with a decision reached during the 1952 Congress in London that for future Congresses it would be reasonable for a financial contribution to be made by all visitors. Visitors from abroad and their ladies will be the guests of the sponsoring bodies at all social functions. No fee is payable in respect of the ladies, who will be welcome to attend the business sessions if they wish.

As You Like It in Consolidation

IT SEEMS THAT there is an untidy state of affairs in American company law, at least in the sector of consolidated accounts. For a recent report of the American Institute of Accountants says that a survey "showed that the principal considerations advanced for determining whether or not to include a subsidiary in the consolidated statements were: (1) the degree of control by the parent company, (2) the extent to which the subsidiary is an integral part of the operating group, and (3) whether the subsidiary is a domestic or foreign corporation."

The survey was a factual one of the practices followed by a number of American industrial corporations in consolidating financial statements. The inquiries of the Research Department of the Institute were responded to by 329 companies—a sample significantly large to support the analysis.

The laxity of statutes in the United States, allowing parent companies on their own volition to include or exclude subsidiaries in consolidation, must offend British accountants. "Offend" hardly seems too strong a word, for one cannot conceive such *laissez-faire* in accounting techniques appealing to accountants steeped in the requirements of the British Act of 1948. "Majority ownership of the voting stock of a subsidiary," says the report, "was apparently regarded by many companies as a valid reason for consolidation of domestic subsidiaries. Fourteen companies indicated that only wholly-owned subsidiaries were consolidated . . . Two companies indicated that their policy was to draw the line at 90 per cent. and two others at 75 per cent. of stock ownership . . ." Generally, about one-third of the companies participating in the inquiry had unconsolidated subsidiaries.

Some companies excluded sub-

sidiaries from consolidation on the ground that their operations were of a materially different type from the rest of the group. But again there is no equivalent to our Board of Trade sanction that must be obtained to permit the exclusion.

Of particular interest to students of consolidations is an analysis of how some companies deal in the consolidated balance sheet with the elimination of investment—the difference between the cost of the subsidiary to the parent and the underlying assets value of the subsidiary. In instances in which the cost of investment exceeded net assets, no less than eight methods (spread over 120 companies) were revealed. But as the report makes clear: ". . . no attempt has been made to evaluate the merits of the alternatives and no recommendations are made as to procedures which should be followed."

There are but twenty-five pages of actual analysis in this booklet (*Survey of Consolidated Financial Statement Practices*, obtainable from the American Institute of Accountants, no price stated). Yet it is a fascinating study. On some counts—high-lighted in this review—we can take pride in being "one up" on our American associates, for our "consolidated house" is in statutory good repair. But having regard to the immense territorial divides of the United States, the object of this report—which must surely be to gain in uniformity of techniques — is invaluable. Reading it cannot fail to make any accountant—not only the American accountant—think.

The Accountant of the Year

Mr. Nicholas Stacey writes: Comedy at the movies, like politics on the platform, is lifeless unless it affirms or rejects a situation or an idea. That is why the antics of a professional man can be very funny on the screen; when the professional man is an accountant—a *genre* usually recognised for probity and meticulous honesty—the result can be hilarious. *The Silken Affair*, an Elstree Studios production which opened at the Plaza in London, is just such a film, and Mr. David Niven has "turned" an accountant. In this role our hero does

Mr. David Niven as The Accountant of the Year

justice simultaneously to Horatio Bottomley and to Pacciolo. That fact that Pacciolo wins in the end shows that right always wins over wrong—at least at the movies.

To tolerate eighteen dull years of marriage and as many years of uninspiring auditing, as did Mr. Niven, is bound to make one hungry for adventure. Thus, when he shares a taxi with a pretty French-American model on a rainy day, the tempest is understandably released. Miss Genevieve Page, whose acting is as good as her looks but wears one down towards the end by her insistence on Platonic *clichés*, chides our sedentary worker for his recognisable timidity and exhorts him "to strike a blow for freedom." This evokes action from Mr. Niven—understandably, since his life so far has not been unlike a British Railways timetable.

From that point the story is fast moving, and often exciting. In his newly found freedom Mr. Niven fiddles the books of two companies. But conscience returns and steals his wife's money to save both businesses from ruin. In due course, he is locked up, but even then he puts his professional skill to "good" use by cooking the books of the jail. With Miss Page as the City liaison, Mr. Wilfrid Hyde White, who plays the part of a merchant banker, devises a scheme to control both companies. With the help of his fellow conspirator, Mr. Niven is extended bank facilities to close in on a take-over bid—which only goes to show that the script writer and producer do not know how the credit squeeze operates. What happens in court and to the two companies, as well as to the *affaire de coeur*, is something that every accountant can find out by going to the movies. This much can be revealed—Mr. Niven is eventually chosen as the "accountant of the year." Unhappily, or fortunately, the names of the selection committee are not disclosed.

The film has been made with imagination and verve, and with close attention to detail. The aura of outward rectitude is depicted to a "T." Perhaps it is this schizophrenia in Mr. Niven, of being naughty and irresponsible while maintaining the outside appearances of dignity and respectability (or is it accountability?), that is the essence of the film and brings forth the real laughs. There are very few accountants who have ever strayed from the "straight and narrow"; it is a profession with few heretics. One reason is perhaps the realisation how stupid the rest of

humanity is about figures. Thus, while the accountant upholds the values of his vocation, he is in a position to judge human conduct and performance with remorseless precision in terms of credits and debits. But when he strays, the traditional concept of the accountant is shattered, the keeper of the calculus is fallen, and the rest of mankind no longer gives him that sheepish look that it usually reserves for him.

Incentive Bonuses

A VERY USEFUL survey* of incentive bonus schemes has been published by the Metropolitan Boroughs' (Organisation and Methods) Committee. The study is intended primarily for Metropolitan Borough Councils but should have a much wider interest, for the subject is dealt with in a general way. At the same time the main services that are particularly amenable to incentive bonus schemes in the Metropolitan Boroughs are examined in detail.

An "incentive bonus scheme" is defined as "a specified award which is in addition to a contractual wage and which is intended as a stimulus to extra effort." Its main purpose is to help in providing a better service without additional cost or in achieving the existing standard at a reduced cost. Various types of schemes are described, and their advantages and disadvantages discussed. In a reference to the legal position of local authorities the opinion is expressed that the District Auditor would not usually question incentive bonus schemes which, having targets based on reasonable work-load and output, provide payment for additional effort. As to the reaction of the trade unions, the Committee says that the general experience of local authorities has been that the unions have given support when they have been consulted from the first and kept informed at all stages.

There are nine appendices describing systems relating to building construction, building maintenance, highways, refuse collection, salvage collection, street sweeping, clerical work and certain miscellaneous services such as gully-emptying and street lighting. The Committee states that there is a mixed opinion on the value of incentive bonus schemes in clerical work, and so far as is known local authorities have not decided to adopt them. A few commercial concerns apply bonus schemes in the office but only for limited types of routine repetitive work such as typing and machine operating.

The Committee emphasises that when embarking on a scheme an authority must carefully choose services suitable for an application, must ensure that the scheme is of the correct type with fair targets, and must spare no effort to keep employees informed at all stages.

Replacement Cost Accounting Again

STATISTICS OF COMPANY profits should be realistic and true, not "artificial and false as they are at present," said Sir John Braithwaite, chairman of the Council of the Stock Exchange, last month. He was speaking at the annual dinner given by the Lord Mayor to the bankers and merchants of the City of London (we refer in our "Month in the City" columns to the speeches given by the Chancellor of the Exchequer and the Governor of the Bank of England). Sir John said that so long as depreciation allowances were granted for tax purposes only on the basis of historical cost and not of replacement cost, so long would corporate profits appear considerably greater than they really were. If the Chancellor would establish the principle companies and their advisers would certainly be able, added Sir John, to find a new and realistic basis for calculating depreciation that would be satisfactory both to the Inland Revenue and to the companies themselves. The Royal Commission on the Taxation of Profits and Income, though accepting the truth of the proposition that a business could not be said to have made a profit until it had provided for the replacement of its assets—and the cost of replacement would nowadays be perhaps two or three times the historical cost—had "sheered away" from making the recommendations that logically should have followed.

Our sympathies are entirely with Sir John in his plea, but perhaps he is not choosing the firmest ground upon which to make it, when he places the emphasis upon the desirability of improving the statistics of company profits. To make these statistics more realistic is indeed a commendable aim, but it would be possible for companies to record their profits for statistical purposes by replacement cost accounting rather than historical cost accounting even if depreciation allowances for tax purposes were still arrived at on the second method rather than the first. What is really important is that in logic as well as economic expediency companies should not have to suffer tax on part of their capital, as in effect they do by the present method of computing the depreciation allowances.

Skyscraper Semantics

THOUGH THIS COUNTRY can claim to have contributed largely to the theory of semantics, much more is made of its general application in the United States. Perhaps the very wide sales there of Stuart Chase's popularisings of semantics have been one of the reasons. The Britisher, for ever empirical, is very coy about putting fine shades of meaning on the terms he uses every day; the American seems happier with formal definition. In Britain, a man often carries his dislike of formal terminology into his job, where there may be more call for precision. In a subject like accounting, for instance, we must admit that confusion does sometimes occur because terms are inadequately defined. But accountants as a whole are unlikely to do much about it, judging from the development of the subject over the last half-century. Certainly, there has been at least one British dictionary of terms—we recall the issue of one by the Institute of Cost and Works Accountants some years ago, but that was confined to cost accounting and was not kindly received by some in the accountancy profession, an indication of the general aversion of which we have spoken. In distinction,

*_Incentive Bonus Schemes._ Pp. 31. (Metropolitan Boroughs' (Organisation and Methods) Committee, Westminster City Hall, Charing Cross Road, London, W.C.2: 10s. 6d. net.)

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for sixteen years past the American Institute of Accountants has had a Committee on Terminology. Hard-headed accountants apparently spend their time (worth how many tens of dollars a day?) discussing the exact connotation of one or two words, and then tell the world, or at least the continent, in an *Accounting Terminology Bulletin*.

One of these bulletins has just appeared, on the meaning and use of the term "book value." Our sallies at skyscraper semantics do not mean that hard-headed sense is lacking in the bulletin. It is certainly correct to point out that when something is stated in a business document to be at book value, misunderstanding and difficulties can occur because the term is "general and relatively vague." It is proper to deplore the arguments and legal actions that may result among the parties to partnership agreements, contracts for the sale of a business interest or wills and trusts. In this spirit, and conscious that book value may mean one thing to one man or at one time and a different thing to another man or at another time, the committee evolves a definition:

> Book value is the amount shown on accounting records or related financial statements at or as of the date when the determination is made, after adjustments necessary to reflect (1) corrections of errors, and (2) the application of accounting practices which have been consistently followed.

There may be "a change in circumstances between the time when an agreement regarding 'book value' was reached and the time when that agreement must be interpreted." Changes of this kind would include, for example, a switch from the F.I.F.O. to the L.I.F.O. method of stock valuation and modified accounting practices. Even if no changes of this kind occurred, it might be doubtful whether book value was intended to mean literally amounts shown on ledger accounts or those amounts corrected for errors and departures from established accounting procedures. The clause about adjustments was inserted in the definition to cover all these possible causes of difference.

Having arrived at the definition, the committee, somewhat by way of anticlimax, pronounces that since the intention of the parties to a business agreement or document, rather than any accounting definition, will govern its interpretation, the term book value should be avoided. Instead, the document should embody a clearly defined understanding in specific and detailed terms, particularly on points such as those that the qualifying clause in the definition sought to cover. At this point, the committee comes much nearer the position of the British empiricist who, reluctant though he may be to draw up or subscribe to a glossary of terms, is well aware of the need for punctilious phraseology in a business document that might have to be interpreted in a Court of law.

Costing the Hospitals

THE APPROACH OF the Ministry of Health to departmental costing in the National Health Service hospitals has been somewhat cautious, if not gingerly. When the report of the working party on hospital costing (see ACCOUNTANCY for September, 1955, page 334) was published, it was announced that the Minister had accepted its recommendations and about their application would consult with the hospital authorities. The arrangements for the introduction are now outlined in a recent circular *Hospital Costing* (HM (56) 77). It must be assumed that the Minister's slow approach has had the merit of securing general co-operation, for apparently all the interested parties have now agreed to go forward without requiring any major modification of the recommendations of the working party.

Perhaps the greatest departure from the working party's recommendations is revealed in the statement in the circular that "It is not proposed initially to introduce (even experimentally) extensions to the main scheme involving ward costing." Yet for all that, it would surely be more realistic to accept that extensions of this kind will in effect be a logical development among the livelier authorities. The use of the word "experimentally" can therefore only be a pointer to an uncertain grasp within the Ministry of the logistics of costing. That the Ministry is anxious for the main scheme to have a fair trial in major hospitals is evident from the emphasis placed on the priority to be given to the introduction of the scheme, even if at the expense of the simple alternative scheme proposed by the working party for most of the other hospitals in any one group. Similarly, rather than an instruction, there is but a muted appeal to the hospital authorities to cost separately such important service departments as operating theatres and staff residences.

It will be recalled that the working party recommend that apart from compiling annual cost statements, presumably for submission upwards in the hierarchy, the hospital authorities should produce during the year for their own use interim statements limited to prime costs. The circular urges the need for these interim statements, but perhaps slightly departs from its moderate tone by suggesting that they should be "preferably monthly by all hospitals." It is to be hoped that, apart from the strain it could put on the finance and statistics departments, this suggestion will not have the effect in the initial period of damning the whole idea of departmental costing by flooding the authorities with too much information on which little action could be taken.

Most of the rest of the circular underlines specific points dealt with in the report of the working party—in particular, the key requirement that the accuracy of the statistics should be unassailable.

It would seem that the circular is the last Ministry action that needs to be taken before the introduction of the scheme on April 1, 1957. After that date the success of the venture will largely be up to the skill—and good sense—of the treasurers and finance officers in the hospitals. All who have the best interests of the National Health Service at heart will wish them well.

Pioneer Associations of Accountants 3—Sweden

TOWARDS THE END of the nineteenth

century the need for more efficient auditing made itself felt in Sweden, and in 1895 the Diet considered the question. Four years later a society named *Svenska Revisorsamfandet* came into being. The sponsors had taken a lively interest in Britain's developing accountancy profession, and wished to follow its example. By 1904 this "Swedish Society of Auditors" had enrolled thirty-two members in Stockholm, and thirty-nine in other parts of the country. There were also sixty-three associates not in practice.

Candidates were required to submit details of their education, and to produce a document signed by competent and trustworthy persons certifying that they were skilled in the arts of book-keeping and auditing. A committee of three active members examined applications, and passed the suitable ones to the Society, which alone had power to admit to its membership.

Members of the *Svenska Revisorsamfandet* enjoyed no special privileges, and shareholders of Swedish companies continued without restriction to appoint any auditors they thought fit. Nor did the Society gain any preference, *vis-à-vis* bank managers, merchants and solicitors, in winding-up work, though the need for legislation to remove irregularities was pressed upon the Government in 1902, when it was urged that a body of trained and qualified accountants should be granted legal recognition.

The *Svenska Revisorsamfandet* was a true pioneering association which in its day met a real need. Today, the only public accountants recognised in Sweden are those approved by the twelve Swedish Chambers of Commerce, which have special statutes for "Authorised Public Accountants" and "Approved Examiners of Accounts." Authorised Public Accountants must possess knowledge and experience to enable them to undertake audits "of a complicated, unusual, or far-reaching" nature. Approved Examiners of Accounts are required to have such knowledge as will enable them "to examine accounts and consider simple administrative questions."

Authorised Public Accountants in Sweden qualify by taking a university degree in Economics or Commerce, or by completing training for five years with a public accountant. Once the Chamber of Commerce licence has been granted, admission may be obtained to membership of the *Föreningen Auktoriserade Revisorer* (the Authorised Public Accountants Association). This association was founded in 1923, with the object of maintaining professional standards, promoting sound principles of auditing and safeguarding the interests of members. The registered office is in Stockholm, and on December 31, 1955, there were 214 active members and three associates.

Shorter Notes

International Fiscal Documentation

From its office at Herengracht 196, Amsterdam, the International Bureau of Fiscal Documentation answers enquiries on tax provisions in force in many countries. The subjects of questions answered last year included turnover taxes; double taxation conventions and provisions for unilateral relief; businesses with subsidiary companies or branches in other countries; residence; interpretation of terms and classification of special categories of receipts and payments; and tax measures aimed at economic objectives such as the encouragement of exports. Information for academic purposes is supplied free of charge, and fees are reduced to annual subscribers.

P. D. Leake Research Fellowships

The Institute of Chartered Accountants in England and Wales has made arrangements for the establishment of a P. D. Leake Research Fellowship in each of the Universities of Oxford, London and Birmingham. The P. D. Leake Trust will grant £2,000 per annum for an initial period of nine years, during which the Fellowship will be available for three years in each of the three universities. It is hoped that experienced accountants will be enabled to carry out research in accounting and the economic aspects of business affairs and taxation, and that the outcome will benefit the accounting profession and the universities.

Investment of Trust Funds

A Stamp-Martin seminar will be held on November 22 at 6 p.m. at Incorporated Accountants' Hall. Professor R. C. Fitzgerald, LL.B., F.R.S.A., Dean of the Faculty of Laws, University College, London, will introduce a discussion on "Legal and Constitutional Aspects of the Investment of Trust Funds in the British Commonwealth of Nations." The seminar is open to all members of the accountancy profession and others who are interested. No tickets are required, but it would be appreciated if those who wish to attend would give notice in advance to Mr. T. W. South, Research Committee Secretary, at Incorporated Accountants' Hall, Temple Place, Victoria Embnakment, London, W.C.2.

Ceylon Accountancy Journal

The Accountancy Students' Association of Ceylon has started publication of a bi-annual journal. The first issue includes articles "The Purpose and Functions of a Professional Students' Society," "The Importance of International Congresses on Accounting," " Streamlining the Balance Sheet," "A Practical Study of Work-in-Progress Control with Standard Costing," "Directors' Remuneration for Profits Tax Purposes" and "Financial Statement Presentation." The first section of the paper "The Changing Pattern of Audit Practice" by Mr. H. L. Layton, F.C.A., F.S.A.A., delivered at the Incorporated Accountants' Course in Cambridge last year is reproduced. We wish success to the *Ceylon Accountancy Journal*, the first Ceylonese publication on accountancy.

Continental Meetings of Accountants

Mr. Bertram Nelson, C.B.E., the immediate Past President of the Society of Incorporated Accountants, represented the Society at the fortieth "Accountants' Day" of the *Netherlands Instituut van Accountants* in Utrecht on September 29 and at the twenty-fifth jubilee celebrations of the *Institüt der Wirtschaftsprufer* in Düsseldorf from October 1 to 3. At the Utrecht meeting it was announced that at the request of the Secretary for Economic Affairs in the Netherlands a committee was reporting on whether there should be statutory regulation of the accountancy profession and, if so, what form it should take. The *Instituut* wished to further regulation.

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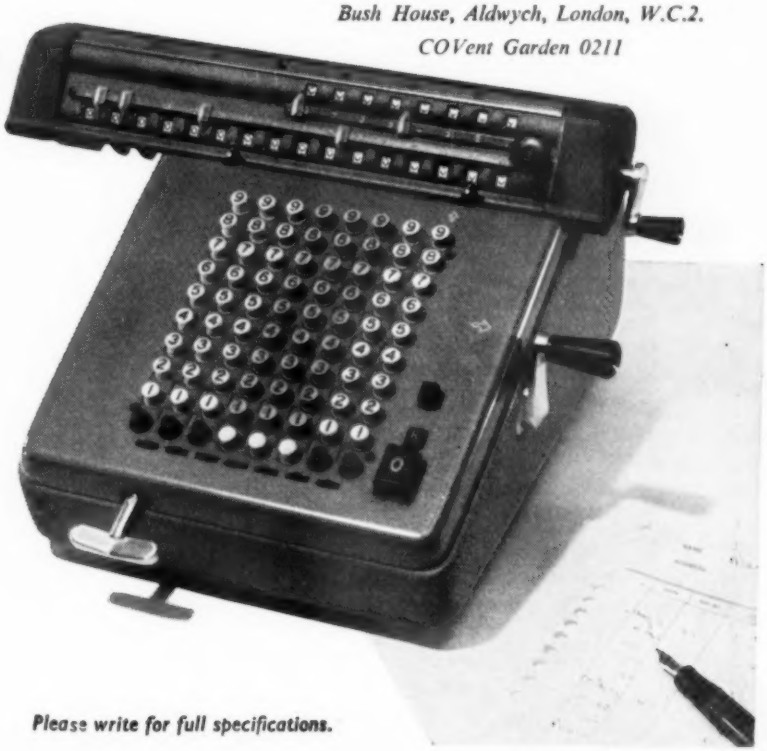

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EDITORIAL

250,000,000 in One Market

QUITE evidently, to pull down the customs barriers in a market five times the size of our present domestic market would offer great economic opportunities. The European common market is so far little more than an aspiration: it is not yet a plan (although a rough conspectus of a customs union, which is something different from the common market, has been drafted by the "Messina countries"). But the aspiration is a large one, and the prospect is economically exciting.

The six countries that, after their meeting in Messina at the middle of 1955, devoted nearly a year to the early thinking for a customs union were the members of the European Coal and Steel Community—Belgium, the Netherlands, Luxembourg, Italy, Western Germany and France. The members of a customs union—such as already exists among the first three of these countries—have no tariffs on imports from one another, and also their tariffs on imports from outside the union are identical. In a common market, no duties are imposed among the members, but tariffs against the outside world do not have to be uniform. It is the liberty of action in fixing tariffs on imports from outside the area of the common market that makes the concept one to appeal strongly to this country. Traditionally, our policy towards entering into pacts in Europe has been a very cautious one—economically as well as politically—because our ties with the Commonwealth have pulled us away from the Continent. But we could join in the common market without any significant damage to the system of Imperial Preference upon which a part of the Commonwealth, even if a diminishing part, has set a high value for a generation since the Ottawa conference. To be sure, it might be necessary, in the bargaining that would accompany the setting up of the common market, to make some limited reductions in present margins of preference, but it is not unrealistic to expect that these concessions to the European countries might be no more than the Commonwealth countries would be willing to accept, if only for the important indirect benefits they would derive from the gains to the United Kingdom.

These gains spring from multiplying our tariff-less customers by five. Every really efficient industry and really efficient producer even in an inefficient industry would be enabled to sell more in all the countries constituting the common market—perhaps eighteen countries with a total population approaching two hundred and fifty million—without having to jump any tariff wall. The extension of sales would rebound upon production—the enlarged output would bring economies of scale in many lines of manufacturing. The momentum applied to British industry could be the dynamic force required to lift it on to a higher plane of achievement which at present it seems unable to reach. The newer industries would develop faster and incorporate technological improvements more rapidly. Not only trade within the common market would grow: the reduction in costs, the enlargement of purchasing power and the advance of industry among the member-countries would mean more trade with the outside world.

We have spoken of the "really efficient industry" and "the really efficient producer." They will be the readier to take to the concept of the common market, since to them the advantages are manifest. Opposition will come —is already coming—from the less efficient producers and from industries that have been declining. However, no one expects to establish the common market overnight. The thinking of the Messina countries was to the effect that it would take twelve to fifteen years to set up their customs union, and that the elimination of tariffs within it would be carried through in three or more stages. This very provisional timetable gives an indication of the period of grace that even the least competitive industry might expect to receive if Britain joined a common market in Europe. Further, the Government has already announced that trade in food, drink and tobacco would be left out of any arrangements to which it agreed for a common market. Since British agriculture is thus virtually secure—but it is safer to say "much of British agriculture," since it would be unwise to assume that the Government will necessarily be able to keep intact the present duties against Continental horticulture and fruit —the largest British industry likely to be damaged is cotton textiles. In fact it is from Lancashire—home of free trade—that most of the opposition in this country to the common market has so far come, though some Lancashire spokesmen have opposed this opposition.

One cannot deny, however, that some producers and their workpeople would be hit by the coming in of the common market. What is important is that these losses would be outweighed by the gains of other producers and their workpeople. To assume otherwise is to assume that British industry would gain more from a restricted and protected market than from an open and expansive one, and to make that assumption is tantamount to affirming that British industry as a whole is in any event in a long-period decline. In addition to producers and workpeople, there is the other party in the economic network, the consumer, who is ultimately the most important party. He should see to it that he is not denied the lower prices that would be forthcoming from the operation of the economist's "law of comparative costs" in a market of two hundred and fifty million people.

Current planning in business demands short-term accounts. Future planning requires an annual budget and regular forecasts, and a specific budget whenever additions to fixed assets are contemplated. The form, content and function of these accounting statements are examined.

The Contribution of Accounting to Business Planning*

by W. F. Edwards, F.S.A.A.

1. Introduction

THIS PAPER WAS first given at a joint British Institute of Management and British Productivity Council Conference on Management Accountancy held at Bournemouth in March, 1956.

The foreword to the advance programme of the previous conference to which this paper was submitted stated, "Management Accounting is a 'best seller'." It is a matter for regret that it was not so as far back as, say, thirty years ago. It could just as easily have been a "best seller" then as it is now; in that period of thirty years nothing whatever has happened to make it more possible —but much has happened to make it more necessary. In a few words, it has recently been "forced" upon us—on accountants and management generally.

Now, as a general rule we do not like those things that are forced on us, like medicine when we were young. So we tend to resist or decry them, or to hail them—as is happening with management accounting—as something new which is not yet proven and with which we need not concern ourselves for the time being—and, many hope, for a long time to come.

For this serious fault I consider that accountants have been primarily responsible. Until recent years most of them failed to realise the vital necessity for such a service, or to equip themselves to be able to render it. They have been too much occupied with taxation and the Companies Acts. Their taxation work is nationally unproductive, in that it is merely directed to seeing that their clients keep as much—and the Chancellor of the Exchequer gets as little—of their particular "cake" as is possible within existing legislation. Published accounts since the 1948 Companies Act are much more detailed and, to a skilled analyst, more informative—but many accountants worry too much about minor deviations from the eighth schedule of the Act and too little about whether the accounts reflect a healthy business and financial state.

2. Attitude of Mind

I have directed your attention to what I consider to be the position to date of management accounting and accountants. I have done this in order to enable the proper approach to be made to any aspect of management accounting and, in particular, to the subject of "The contribution of accounting to business planning."

If management as a whole, including the accountant (or, in small businesses, the public accountants now handling only their audit and taxation) can be persuaded to believe that accounting can contribute to business planning, then considerable progress will have been made towards a point where the accounting work of the business will yield a real contribution to the success of the business. In this context "success" means the maintenance or improvement of:

(*a*) the productivity of the fixed and other assets employed in the business;
(*b*) the working conditions and rates of pay of those employed in the business;
(*c*) the quality and value of the product or service rendered to the customers of the business;
(*d*) the operating profits of the business.

The order of the above is important.

The assets of the business already exist and much money is locked up in them. To use them more or "turn them over" more times a year often requires nothing more than closer attention to, *and action following*, the operating data which the accountant should and can provide promptly—*provided there exists in the business the right attitude of mind to such data.* The data are not prepared to show that someone was wrong, or has done a less satisfactory job than was contemplated—they are submitted

*A paper read on September 22, 1956, at the Incorporated Accountants' Course at Gonville and Caius College, Cambridge.

or review and constructive action, as part of a "team" effort. With improved productivity it should be possible to offer more stable employment and, in most cases, "above standard" rates of pay to employees. This can lead to everyone having a deeper interest in the business, and to improved quality of the greater output. With this state of mind it will often be possible to absorb increased costs of materials and labour, and so on, without increasing unit costs—and so avoid the need to increase selling prices. Improved quality at the same or a lower selling price gives better value to the customers.

The result should be an increase in actual profits—there will certainly be an increase in the return on the assets invested in the business; expressed another way, increased profits are not in themselves an objective—they flow from dynamic and constructive management, but only if there is a correct "attitude of mind" to the business as a whole and, in particular, to the work and product of the accountant and his staff.

3. Accounting Contribution to Current Planning

For accounting to contribute effectively to current planning, there must be a consciousness of the importance of the prompt issue of short-term accounts showing actual results for the immediate past.

Generally, monthly accounts of the over-all operation of the business will suffice. (Actually, this means daily "accounts" or reports of some operations, and weekly reports of others—all of which "build up" to the over-all monthly accounts.)

On the other hand, for some activities, for example, ship or bridge building and similar "long-term" operations, the benefits of monthly accounts in the average business may be secured even though the accounts be prepared only quarterly.

Going to the other extreme, in a public bus or coach operation daily "accounts" of some kind are a "must"; to fail to know what is happening daily precludes any possibility of planning for the immediate future.

If a business has not previously had other than half-yearly or yearly accounts it is better first to apply all available effort to preparing quarterly accounts, and only later—and possibly as much as two years later—to attempt monthly accounts.

Having got all concerned into the attitude of mind that they are all going to help towards the preparation and completion of short-term accounts, we arrive at the next hurdle. It is that the accounts, and a constructive report on them by the accountant, must be available for consideration by management as a whole within a period not greater than fifteen calendar days after the closing date of the accounts.

Here again we may encounter an attitude of mind. The accountant may say he cannot complete accurate accounts within that period. But, with continuing experience, he can complete accounts that are accurate enough for the purpose for which they are being prepared—to help the business in its current planning. As further accounts are prepared the standard of accuracy will improve, following the better understanding by all concerned of the objective of their preparation and review. In due course the accounts prepared will be accurate for all purposes.

The only real use of short-term accounts of a past period is to show where something went wrong, or failed to come up to expectations—without short-term accounts as a guide these expectations are often optimistic and even rather nebulous. But the accounts are of use only if immediate attention is given to, and serious attempts made to correct, the adverse features which they disclose. It may be that these adverse features just cannot be corrected immediately. Then the short-term accounts make a valuable contribution by bringing such points to the surface earlier than would otherwise be the case—and similarly permit of their earlier solution. Thus, short-term accounts, properly handled, enable the accountant to make a real contribution to current planning—and they remove from management as a whole any possibility of saying later, "We 'did not realise the position'."

There is now another hurdle. This is that it is the duty of the accountant to circulate to his colleagues only those portions of the short-term accounts which are of direct interest to each of them individually. Even the managing director may not fully understand the complete accounts—and even if he would do so he should have other more constructive uses for his time and efforts than to have to plough through them. In brief, a precis of the complete accounts should be prepared by the accountant and circulated to all top management—and "top management" should not be construed too narrowly for this purpose—and the various supporting schedules should be prepared in such a way that they immediately show the various departmental managers data they understand and want to know. With this approach the preparation of the accounts will yield a real dividend in better understanding and operation of the business.

4. Accounting Contribution to Future Planning

There can be but little contribution under this head unless short-term accounts are maintained and used. On the assumption that they are in operation, a contribution to future planning can be made under the following heads:

(*a*) As a result of the studies and decisions which are a necessary prelude to the preparation and completion of an annual budget;
(*b*) Through regular forecasts each month of the current month and, say, the following two months;
(*c*) By the preparation of a specific "budget" whenever additions to fixed assets are contemplated.

These topics are briefly reviewed in the following sections.

5. An Annual Budget

The broad principles of an annual budget are more fully dealt with in a paper I gave to a Management Accounting Course held by the Society at Balliol College, Oxford, in September, 1952.

An annual budget is an essential part of planning for

the future of any business. First of all, what *is* a budget, in the sense we are using the term? I think it is a "trial run" or a "pre-view" of net sales and costs and of the trading and profit and loss account and balance sheet, for the ensuing financial year, based on conditions—both internal and political and the like—which it is considered will operate in that period. The period need not be a year, but I think it should be. This can be done for *any* business, of any type, large or small.

The foundation of the budget is the estimated *net sales* —whether you are retailing newspapers or potatoes, or manufacturing and selling radios or railway engines, or building bridges or tunnels under contract.

To be able to prepare a budget we must assess or estimate or know:

(*a*) The conditions in the period;
(*b*) The contemplated general plan of operating the business;
(*c*) The net sales—and unit selling prices;
(*d*) The expenses of the business, and how much is considered fixed, and how much will vary with net sales or production—this is most important;
(*e*) Unit costs—material, direct labour and overheads;
(*f*) The period over which the stock on hand is intended to be sold—that is, rate of stock turnover—and the length of credit to be given on sales.
(*g*) Any contemplated major capital expenditures, and their effect on the capacity of the business.

To consider and make decisions on the above matters enables a plan to be formulated.

In compiling and amending, and finally completing, an annual budget based on such a plan the accountant, in effect, presents to his management colleagues the collective expression, and result in money terms, of certain plans and objectives. Managers, when they advise agreement to those elements which are their direct concern, individually accept responsibility for those plans and objectives. Expressed another way, it is enforced planning by all executives of the business. The accountant contributes by submitting past data as a guide and by ascertaining and reporting on the probable costs or financial effects of alternative decisions of policy.

When the decisions have been made the budget can be completed, and standards will have been established against which actual performance in the period can be measured—this latter is the most beneficial result of completing and assembling the components of an annual budget.

I ask you to note the reference to "past data." The *only* use for past data is to form a guide to what to avoid or improve in the future. It is for this major reason that past data must always be available promptly if they are to be of any use to the business. If past results were bad, the budget should reflect policy decisions that will achieve a definite improvement; if they were good, then it is important to apply all available energies in an effort to ensure that these good results continue.

It may be necessary, and it is quite permissible, to "change course" during the budget period. Where it arises, the need to consider such a change will have become apparent from the recent actual and forecast results; the general situation would be reviewed by management and revised plans and objectives agreed after full discussion, whereupon the accountant would amend the budget to express in money terms the projected results of the revised plans and objectives.

6. Regular Forecasts of the Current Period

After all necessary or possible action has been taken arising from a review of the accounts for the immediately past period it is desirable, while the "atmosphere" of that and the current period is present, to prepare a forecast of the operating results and balance sheets of the current and some of the following months or other periods.

The forecasts should be based on current experience and outlook, and not on budget standards. When completed, they should be compared with what the same net sales, manufacturing activity and so on would yield if budget standards were being met. This gives the variance from budget standards and thus shows the extent to which management is departing from, or improving on, its previously established objectives.

If there is an adverse variance it is not necessarily a matter for criticism. The important point is that the early knowledge of such a situation enables all possible remedial action to be taken without delay.

It may be that an initial forecast shows a loss: if this is so, it is almost certain that those concerned will amend their submissions and their plans until a revised forecast can be submitted to management that shows a profit—or management will there and then give serious consideration to how, and how quickly, the situation disclosed can be remedied, and a "profit outlook" restored.

This is submitted as a very simple example of the valuable contribution which accounting can make to business planning.

7. Fixed Assets Budget

Fixed assets are purchased for use in the business. Having been acquired, they cost money to house and maintain, and to provide for the redemption of their purchase price. It is therefore most desirable that a special study be made whenever any major additions to fixed assets are contemplated. Expressed another way, such an intention provides an ideal opportunity to make a "budget" of the activity concerned, and the purchase should be proceeded with only after the study has shown conclusively that there is a reasonable prospect of the additions "paying their way."

This principle applies to both direct and indirect activities. A direct activity would be increased capacity for the manufacture of an existing product, or new capacity for the manufacture of a new product. An indirect activity would be a proposal to, say, increase the existing transport fleet, to provide for the delivery of increased sales volume. Let us take this as an example and assume that the present output is delivered by six trucks, and everyone agrees the output is increasing and so it seems simple and proper to agree that, say, two more

trucks shall be added to the existing fleet. At this point accounting can make a real contribution to business planning. All aspects of the use and cost and suitability of the existing fleet should be extracted from all possible sources, and reviewed with those directly concerned with their operation. It may be found that the nature of the product being carried—that is, its size or weight—or the range of delivery areas, has changed, and that the existing fleet is now unsuitable for present demands. This should lead to a study of the most suitable type of transport for present requirements, including consideration of the alternative cost and suitability of public rail or road transport. The outcome of such a study may show:

(*a*) that the existing vehicles are unsuitable and costly to operate and maintain;

(*b*) that they travel too long distances and are unladen for too great a portion of those distances;

(*c*) that heavier trucks to central points and feeder vans from those points would give much better service and reduced distances and costs per mile, notwithstanding the need to rent additional garage or depot premises as part of the revised plan of operation;

(*d*) that, over-all, the existing fleet should be disposed of and an entirely new fleet and operating plan substituted;

(*e*) that the new plan shows that the annual cost of the new fleet is greater than the present annual cost, but is less than would have resulted from an addition of two of the existing type of vehicle—that is, that there is a reduction in the delivery cost per £100 of net sales.

All the above points should be carefully considered and discussed with those directly concerned, and a report and capital expenditure request prepared recommending the purchase of three trucks and trailers and three vans, the disposal of the existing fleet and the renting of depot premises at a central location. The support for the request would be a schedule showing the existing and proposed capital investment, and the projected running and other costs per £100 of net sales.

When the whole matter is reviewed as outlined above it is often possible for the additional or replacement investment on an indirect activity to "show a profit"—in this case by a reduced delivery cost for *all* products.

In theory, such studies should be made regularly; in practice, this often proves impracticable and so to insist that they be made wherever additions to fixed assets are proposed ensures that the fixed assets used in the various sectors of the business do not just "grow like Topsy" and load the business with unnecessary or unsuitable or unprofitable assets.

It is important to review the use of the existing assets, as well as the use of the proposed additions.

Some capital expenditure proposals cannot be appraised on a definite productivity or profit or savings basis. Examples are the refurnishing of a showroom or the re-equipping of a works hospital. But even in these cases the accountant can make a contribution by submitting a study showing the annual cost for maintenance and depreciation and like expenses, and, for the hospital, incorporating in the study the personnel manager's assessment of the personnel relations benefits accruing from the availability and use of the improved facilities.

Too many proposals for capital expenditure fail to gain acceptance because they are not properly presented on an annual, as well as on an initial, cost basis—and the accountant is well qualified to make the presentation, in money terms, after all the technical aspects have been cleared with those directly concerned.

But it is also important to undertake a second study, namely, a review of the actual results achieved after the new assets have been in use for a representative period. There will be differences between the projected and actual results—but the important point is for management to be made aware of them; if they be unsatisfactory it is probable that the situation can be corrected—and the knowledge is valuable when preparing future studies of a similar nature.

8. **Taxation**

Many of you will ask where and how taxation enters into the studies I have referred to in this paper.

The answer is very simple—the decisions reached should be based only on operating considerations, because any other approach will lead to confusion both of thought and of action—or to inaction. Only when the operating decision has been made should the accountant apply his mind to the taxation aspect of the agreed plan; it is then in order and is, in fact, his duty, to make supplemental recommendations which will provide that the resultant taxation liability is no greater than is due in conformity with current legislation.

9. **Conclusion**

In a paper of this restricted length it is possible only to "point the way" to the objectives outlined and the benefits to be secured from the use of accounting in business planning.

Mention of standard costs and other specialised accounting techniques has deliberately been excluded from the paper. Their introduction and use can be of considerable assistance—but they are not essential to the effective adoption in many businesses of the accounting procedures outlined here.

Too often it is submitted that it is necessary to overhaul or revise the accounting procedures before any benefits can be obtained.

The converse approach of ascertaining the maximum benefits to be derived from the full use of the existing accounting data will often very quickly show that substantial benefits can be obtained. This will create an "attitude of mind" which will result in those concerned requesting that the accounting procedures and data be improved and extended to give them still more help towards the more effective discharge of their responsibilities as members of the management team. They will then have accepted that accounting can make a contribution to business planning!

When can claims from a bankrupt be set-off against sums due to him? Our contributor discusses the legal ramifications of this question, particularly in the light of a recent Court case.

Set-off in Bankruptcy

[CONTRIBUTED]

WITH THE EVER-GROWING complexity of credit arrangements of all kinds the allowable limits of the right of set-off in bankruptcy become increasingly important and difficult. Over the years there have been many decisions of the Courts on what may and what may not be the subject of set-off under Section 31 of the Bankruptcy Act, 1914. Thus it has been established that the claims must be commensurate (for instance, there can be no set-off of goods against money); that the claims must be in the same right (for instance, a trustee cannot set-off a debt due to him personally against a claim in respect of a fund in which he has no beneficial interest); that the claims must be between the same parties (for instance, a joint debt cannot be set off against a separate debt); and that claims provable in bankruptcy in respect of damages, liquidated or unliquidated, arising out of contract may be the subject of set-off. There have also been decisions in respect of guarantors who have been called upon to pay as sureties and have later been made bankrupt.

It is a quite common practice for the purchaser of goods on credit to guarantee a loan to the seller when the latter has to raise funds to pay cash for the goods re-sold on credit. If the purchaser is later made liable under the guarantee and seeks to recover from the seller what has been paid as his surety, then the question of setting-off the value of the goods may arise. A question of this type was dealt with by the Court of Appeal in *In re a Debtor, ex parte Waite's Trustee* [1956] 1 W.L.R. 1226, the decision of the Divisional Court [1956] 1 W.L.R. 480 being affirmed. The case turned on the interpretation to be given to the term "mutual dealings" as used in Section 31 of the Bankruptcy Act, 1914.

This term was introduced into the bankruptcy vocabulary in 1869 by way of addition to the terms "mutual credits" and "mutual debts." Section 31 of the 1914 Act reads:

> Where there have been mutual credits, mutual debts or other mutual dealings between a debtor against whom a receiving order shall be made under this Act and any other person proving or claiming to prove a debt under the receiving order, an account shall be taken of what is due from the one party to the other in respect of such mutual dealings, and the sum due from the one party shall be set off against any sum due from the other party, and the balance of the account, and no more, shall be claimed or paid on either side respectively; but a person shall not be entitled under this Section to claim the benefit of any set-off against the property of a debtor in any case where he had, at the time of giving credit to the debtor, notice of an act of bankruptcy committed by the debtor and available against him.

This provision embodies a principle recognised in successive bankruptcy statutes going back as far as Queen Anne. The principle has been steadily enlarged by the courts as well as by the Legislature when it incorporated the idea of "mutual dealings."

Subsequent Quantification of Effective Claims

The scope of the principle is illustrated by *Peat* v. *Jones and Co.* (8 Q.B.D. 147), a decision to the effect that unliquidated damages for non-delivery of goods under a contract could be set-off against a claim for the price of goods that had been delivered. Both claims arose out of the same contract. It was a matter of quantification at a later date of a claim which was part of the mutual dealings.

This notion of quantification is far-reaching. The case of *In re Daintrey* (1900, 1 Q.B. 546) is authority for the proposition that if the *contra* right were one which was effective before the receiving order, though its quantum was measured afterwards, the system of set-off would apply. In that case D., a solicitor, was indebted to M. for £86. He then sold his practice to M. under an agreement whereby M. was to pay him a portion of the profits at the end of three years. A receiving order was made against D., at a date when no profits had been earned. But at the end of the three years a sum of £300 was found to be payable by M. to D. This sum M. paid to D.'s trustee in bankruptcy after deducting the £86. The trustee objected that M. could not set off the £86 against the £300 and that he must pay the latter in full and be satisfied with a dividend on the debt of £86. The Court of Appeal disagreed, holding that there could be a set-off.

In the first place, it was decided that the date of the

receiving order was the relevant date for the purposes of the Act. Secondly, the amount of £300 was payable under an agreement existing at the date of the receiving order, though the amount was not ascertainable until later. The Court explained that the amount ultimately becoming payable could not be ascertained until some time later than the date of the receiving order and it was possible that the amount might be very small, but whatever eventually became payable became payable by virtue of the earlier agreement and of nothing else; there had been no dealings between M., on the one hand, and the bankrupt D., on the other, outside the agreement.

Contingent Liability of a Surety

The Courts have distinguished between an amount due in respect of mutual dealings (whether quantified immediately or later) and the contingent liability of a surety. The latter liability may not be set off.

A surety who has a right of proof in respect of his contingent liability as surety is a "creditor" of the principal debtor for bankruptcy purposes. This was held in *In re Paine* (1897, 1 Q.B. 122), in which payment had been made to or for the benefit of the surety before he had actually been called upon to pay as surety. Such a payment may amount to a fraudulent preference of a "creditor." This decision was followed in *In re Blackpool Motor Car Co.* (1901, 1 Ch. 77). But rulings about who can be a creditor and be fraudulently preferred do not decide the question of set-off.

The question was considered by the Court of Appeal in *In re Fenton* (1931, 1 Ch. 85). Certain advances by banks to a trading association which later went into liquidation had been guaranteed by F. The liquidator lodged a proof against F.'s estate in bankruptcy in respect of sums due by F. to the association. F.'s trustee rejected the proof and claimed to set-off the various sums advanced by the banks to the association for which F. had given his personal guarantee. The banks had proved against F's estate under the guarantee but had received nothing. It was held that inasmuch as none of these sums had in fact been paid by F. or his trustee to the banks, the trustee was not entitled, under Section 31 of the 1914 Act, to set-off F.'s contingent liability under the guarantee against the sums due by him to the association.

The liability of F. at the date of the receiving order was uncertain, though he might have made his position certain by payment. The Master of the Rolls thought that the words of the Section clearly connoted an account capable of ascertainment on either side, if not immediately, yet based upon authority or liability definitely undertaken. He found it difficult to construe the words or adapt the system of set-off to dealings in which there was a debt on one side due to the other, and *per contra* there was not a debt or a certain liability, but one in respect of which there was a right of protection and no more—a liability which could not be turned into a direct *contra* money claim, unless and until the debt had been paid by the surety, who then, and not till then, would become entitled to give a discharge for the sum paid to him. But Lord Hanworth, M.R., referred to *In re Daintrey* as authority for saying that "If the *contra* right were one which was effective before the receiving order, though its quantum was measured afterwards, the system of set-off would apply."

In the recent *Waite's* case it was argued from some of the passages in the judgments in *In re Fenton* that payment by the guarantor's trustee subsequent to the relevant date should be related back to that date so as to give rise to an application of Section 31 of the Act. Such payment had not in fact been made in *In re Fenton*, but the argument, although it was rejected in the recent case, does find some support in the headnote of the report of *In re Fenton*, running as follows: "*Held* . . . that inasmuch as none of these sums had in fact been paid by (F.) or his trustee to the banks the trustee was not entitled . . . to set-off . . .". Moreover, Counsel for the liquidator of the association conceded that if the surety had paid the sums due under the guarantees, the surety would have been entitled to set-off the amount so paid.

Position Where the Surety Has Paid

This position had to be considered in *Waite's* case. In the result *In re Fenton* was distinguished but the reasoning behind that actual decision was applied. The question in *Waite's* case emerged from the following facts:

> In January, 1952, the debtor agreed to sell to W. on credit goods for which the debtor had to pay in cash. In order to pay for the goods the debtor found it necessary to borrow money from his bank, and W. in consideration of the credit which he thus received agreed to guarantee the debtor's overdraft to an extent not exceeding £200, the guarantee being secured by a deposit of title deeds of certain property owned by W. During 1952 the debtor supplied goods to W. to the value of £201 14s. 6d. and W. paid £100 into the debtor's bank, which left a balance due of £101 14s. 6d. On October 1, 1954, a receiving order was made against W. and W.'s trustee in bankruptcy, in the course of realising the assets and in order to complete a sale by him of the property secured by the deposit of title deeds, paid in July, 1955, to the debtor's bank the sum of £133 14s., the amount (with interest) of the debtor's overdraft, and obtained release of the goods.

These events having taken place, W.'s trustee in September, 1955, commenced an action against the debtor to recover the sum of £133 14s. "paid for the defendant as his surety." The debtor appeared and claimed to set off the sum of £101 14s. 6d. for the goods supplied to W. and in addition interest on the overdraft, but on October 6, 1955, the District Registrar of the Court gave leave to W.'s trustee to sign judgment for the sum of £133 14s. and £16 16s. 6d. costs, a total of £150 10s. 6d. Then on October 15, 1955, W.'s trustee in bankruptcy obtained the issue of a bankruptcy notice to the debtor in which was claimed the payment of this latter sum. The bankruptcy notice was not complied with and on December 22,1955, W.'s trustee filed a petition in bankruptcy against the debtor based on the judgment debt. A receiving order was made and the debtor appealed.

Two points arising out of all this were quickly disposed of by the Court of Appeal. (1) It was open to the Court to go behind the judgment of the Registrar refusing the set-

off, although that judgment had not been appealed against, because for bankruptcy purposes a judgment is not conclusive evidence of a petitioning creditor's debt. (2) The amount of the debt due to the debtor from W. in 1954 (£101 14s. 6d.) was not automatically discharged by payment by W.'s trustee in bankruptcy to the debtor's bank in July, 1955, of the amount then outstanding on the overdraft (£133 14s.).

There were two other points of real difficulty. (3) It was held that at the relevant date for the application of Section 31 of the Bankruptcy Act—that is, the date of the receiving order in W.'s bankruptcy—there was no debt due from the debtor to W. capable of forming the subject-matter of a set-off under the Section against a debt due from W. The rights of W. against the debtor were the special but contingent rights of a surety who had not been called upon to make any payment by the principal and had not exercised the protective right of a surety to require the principal debtor to relieve him of his liability by paying the debt owed to the principal creditor. Nor was all that remained to be done the quantification of the extent of an obligation already incurred; in other words, *In re Daintrey* was distinguished.

It was also held (4) that the claim subsequently created by W.'s trustee in bankruptcy, although in consequence of the mutual dealings in W.'s bankruptcy, could not be related back to the date of the receiving order in W.'s bankruptcy. The case of *Ex parte Barrett* (34 L.J. Bk. 41) was distinguished.

Lord Evershed, M.R., made it clear that the precise points (3) and (4) were not raised by *In re Fenton* and that therefore the Court was thrown back on the terms of Section 31, for the right of set-off claimed was "a special right, defined and ordained by the statute." He was clear that there was nothing "due" from the appellant to the bankrupt and also that the sum paid nearly ten months later by the trustee to discharge the sum then due to the appellant's bankers (which might well have been different from the sum due on October 1, 1954) could not be treated as a mere quantification of an obligation in the nature of a debt already existing on the last-mentioned date. Hodson, L.J., in agreeing, explained that to bring the case within Section 31 the change in the position must have taken place before the date of the receiving order, when the rights of the parties had to be determined. But in fact no change took place at that time. It was not until years after the date of the receiving order that W.'s trustee changed the contingent liability originally incurred by W. into a debt due to himself when he paid off the overdraft outstanding in order to redeem the title deeds of W.'s property pledged to the bank as security.

Surety Taking Assignment of Security

As has been mentioned above, the case of *In re Barrett* was distinguished in *Waite's* case and treated as dependent on its own special circumstances.

What happened in *In re Barrett* was this. C. mortgaged coal mines to L., with B. as surety. C. then sold the equity of redemption to a company, which covenanted to indemnify C. against the mortgage. In order to satisfy L., the company gave him its promissory note for £7,000. The company subsequently went into liquidation. B.'s sister took an assignment from L. of the mortgage debt and all securities for it, including the note of the company in the sum of £7,000. B. was liable as a shareholder and contributory of the company, and he took an assignment of the mortgage and the note for £7,000 from his sister and gave her his own promissory note for £7,000. He then claimed to set-off the liability of the company on the note of the company for £7,000 against the claim by the liquidator for calls on his shares, and it was held that the set-off applied. The basis of the decision was that B. as surety had before the liquidation a right to have the security transferred to him; his rights, therefore, accrued before the liquidation and as one of the securities happened to be the promissory note of the company he was held entitled to use it as a set-off.

Lord Westbury, L.C., is reported as saying (12 L.T. 194): "I think he (i.e., B.) must be held to be precisely in the same state in which the creditor (that is, the mortgagee) stood at the time when the note was made; and if I remit him back to the right which his principal had, then I refer his right to set-off to the state of things which existed at the time of the winding-up order." It is to be noted that the fact of the promissory note not having matured until after the date of liquidation—which was for the purposes of set-off the relevant date—does not appear to have been referred to in the argument as reported or in the judgment.

In this case the Lord Chancellor referred to the mischief that would arise in winding-up or in bankruptcy if a debtor was permitted to buy up counterclaims subsequently to the winding-up order for the purpose of making a case of set-off. But on the facts it was held that the contract of suretyship incurred by B. anterior to the winding-up order with its attendant rights gave such retroactive force to his possession and ownership of the note as to enable him to refer it back to that contract or relation before the winding-up order was made.

This line of reasoning was held not to be applicable to the facts in *Waite's* case. Lord Evershed, M.R., said that whatever be the view taken of the decision of Lord Westbury, L.C., or the grounds upon which it proceeded, the case of *In re Barrett* was one depending upon its own special facts and the conclusion that upon those special facts B.'s claim against the company upon its promissory note could be related back to the date of the company's liquidation. That claim, he went on to explain, at all events arose exclusively out of the note itself, which had been given for a sum certain and at a date prior to the liquidation; and B., as surety for the mortgagor's obligation under the original mortgage, had been entitled to the benefit of the company's securities for payment of the principal debt.

The Court of Appeal, as well as the Divisional Court, distinguished or explained away *In re Barrett*. That case cannot be used to support a general relaxation of the principles of mutual dealings and set-off by the method of taking assignments subsequent to the relevant date.

ACCOUNTANT AT LARGE

Bang goes Saxpence!

AS THIS ISSUE of ACCOUNTANCY appears preparations are in hand in places public and private for the pyrotechnics of the Fifth; accountants, like lesser men, are girding their loins for the fray. Guy Fawkes has through the years more to answer for than his initial plot, if indeed he can justly be held responsible for the annual saturnalia in which he is commemorated.

Accountants are demonstrably no meaner than architects or artificers; indeed where their own and not their clients' money is concerned they are as a class no more "careful" than their friends in other walks of life. So their children can expect just as handsome displays in their back gardens as can the children of their neighbours. But we may perhaps sympathise with the accountant who, before he bends his yearly more rheumaticky joints to light the first firework, has in the interests of his family both disciplined a natural affection for money and overcome an instinctive abhorrence of sudden loud noises.

When it is all over, the children in bed and the dog nervously reappearing from the coat cupboard, such a one may be caught estimating sourly the cost of the evening's festivities, domestic and national. Just as the non-smoker sneers at the waste of the money that goes up in smoke so he, who doesn't like fireworks, will grumble (although to himself) about the folly of paying vast sums for a brief period of noise and sparkle. Bang have gone saxpences by the score: and (he enquires, morosely rhetorical) to what end?

It is at this stage that he may be tempted to widen his horizon, sweeping on to large and only partly documented generalisations about the wastefulness of mankind as a whole. He will recall the statement he read somewhere or other that man is Nature's only parasite, the only creature here below who consumes the earth's bounty and never returns it. When man burned wood it was possible for him to see to its replacement; but in our unhappy accountant's fireplace there is burning coal which took geological time in the making; and no one, so far as he knows, has yet suggested a method of recreating the oil that man takes from the earth. Man is indeed a despoiler.

We may hope that our accountant has the consciousness of his own rectitude to buttress him in his cosmic gloom: a compost heap at the bottom of the garden will represent at least a gallant effort to right the wrongs of his kind. If he has worked his principles into sound practice he will have arranged for a large part of the household débris to find its way to the heap: tea leaves, and the dust from the vacuum cleaner, and the paper it was decanted into, and the bones that the dog failed to bury, and the potato peelings and the eggshells, as well as the green garden waste, will be maturing in the heap and miraculously turning into rich soil to nourish next season's crops. That, he will think, is nearer the way things should be.

Unfortunately it leaves the dustman with the distinct impression that the family lives entirely on tinned food; and the thought of the tins will depress our friend again. Germany, he has been told, orders the matter of salvage intelligently, no doubt beating its old tins into motor cars or refrigerators. He himself, having patiently accumulated at the back of the garage a pile of scrap metal ranging from tins to an old iron fireplace, could not prevail on the rag and bone man to take it away even for nothing—"because there was no lead or copper in it." Bottles, again: he has been puzzled by the mysterious fact that the shop will give him various sums of money for some returned empties and will refuse even to take in others, in all appearance just as shapely, and just as costly to manufacture. Comfort came on that point with the religious organisation that now calls monthly to take away in sacks all kinds of waste material, including every size and shape of bottle. There are at least some people, he tells his friends, who are prepared to organise the reclamation of waste; but how small an effort their work represents in the wide open spaces of wastefulness! And the tins defeat even them: they would be delighted to add tins to their collection, they have told him, but so many people omit to wash them out that the problem of hygienic storage becomes impossible.

The spur of war, which made us all salvage conscious, has gone, and now only the Civil Service continues the laudable habit of using "economy" labels (usually spoiling the effect and the economy by sticking them on new envelopes). The accountant of our imagining, having seen and disliked other manifestations of the very proper care of the Civil Service for the taxpayer's money, cannot take the satisfaction he would like from this one; and anyhow, he feels, other countries, in no more dire need than ours, do better than this. There is only an indifferent consolation in the thought that America, as he has gathered, does much worse, cutting down a forest to make a Sunday newspaper, and encouraging the discarding of last year's still perfectly good product to make way for this year's new one. Where there is abundance man will waste it, and the American citizen, with a fir tree delivered on his doorstep on Sunday morning to read with his breakfast cereal, presumably has no qualms about the speed with which natural resources are being eroded: there are still plenty left. But the prophets have begun to wonder how long it can go on, and although there is controversy on this point our friend

finds himself instinctively on the side of the pessimists—for, in all recorded time before, man has not consumed so much of his substance as he has in the last brief fifty years. And daily there are more mouths to feed.

At this point, clearly, he should retire for the night before he feels actively suicidal about it all. And what a pity to have erected so forbidding a structure of despondency upon false premises! For, whatever one may feel about dustbins and scrap metal, Firework Night is no more wasteful than a visit to the theatre, or a run in the country: a momentary pleasure (which, miserable man, he alone of his family is denied) innocent enough and indeed, in the economist's strict terminology, productive, because it produces a "utility." The compost heap may appear to be more virtuously productive, but—the question has echoed down the years—dost thou think, because thou art virtuous, there shall be no more cakes and ale?

TAXATION

Repayments to Minors

THE INCOME TAX ACTS regard an infant as an "incapacitated person." He is normally to be assessed and charged in the name of the trustee, guardian, or tutor having the control of his property or income (Sections 363 and 526, Income Tax Act, 1952). An infant can, however, be required to make a return and be assessed direct—for example, if he earns income. He cannot escape assessment by having no trustee or guardian (*Rex* v. *Newmarket Commissioners, ex parte Huxley*, 1916, 7 T.C. 49). A guardian who receives and controls income on behalf of an infant is liable to pay the tax thereon, even if he has no control over the assets from which the income arises (*Drummond* v. *Collins*, 1915, 6 T.C. 525).

Claims for repayment of tax on the income to which the infant is absolutely entitled should be made by the parent, guardian or trustee within six years from the end of the year of assessment in respect of which the claim is made. Where the infant has a vested interest in property—for example, in trust funds—the whole income therefrom is income of the infant as it arises, even if the whole or part of the income is accumulated as being in excess of the amount required to maintain and educate the infant. If, however, the terms of a will or settlement require the income to be accumulated for the benefit of a person contingently upon his attaining a specified age or marrying, the beneficiary does not become absolutely entitled to the income until the happening of the contingency. The amount expended in maintenance and education is then regarded as the vested income of the beneficiary in the years in which it is expended; the balance of the income reaches him in one sum on the happening of the contingency.

The sums spent in maintenance, etc., being paid out of taxed income, are regarded as net sums, and the gross equivalent must be taken as the income of the beneficiary for the years in which the expenditure is incurred. Should trustees neglect to claim repayment for the child in respect of vested income, the child is prejudiced by the six years time limit, unless the income accumulated is sufficient to cover the whole of his allowances. On the contingency happening, Section 228 of the Income Tax Act, 1952, allows the beneficiary to claim repayment of tax on any allowances in respect of which he has not yet had relief, for the whole of the years of accumulation; the claim must be made within six years from the end of the year of assessment in which the contingency happens.

In this respect Section 31 of the Trustee Act, 1925, is to be noted. By this Section trustees are empowered (subject to prior interests or charges affecting the property) to maintain and educate an infant (in a reasonable manner) out of income whether his interest is vested or contingent. If a person on reaching twenty-one does not acquire a vested interest in the income, but the trust carries the intermediate income, the trustees (unless there is a contrary intention shown in the trust instrument) must thereafter pay to him the income from the property and from any accumulations, until he attains a vested interest or dies or the interest fails. Income accumulated during minority on a contingent interest becomes capital of the trust for all purposes (*C.I.R.* v. *Bone*, 1927, 13 T.C. 20). The fact that Section 228 permits repayment of tax on allowances by reference to that income does not change it from having been capitalised for any other purpose—for example, surtax cannot be charged on it (*Stanley* v. *C.I.R.*, 1944, 26 T.C. 12).

It is essential to note that the Section applies only where the contingency is the attainment of a specified age (not necessarily twenty-one) or marriage. A direction that income is to be accumulated for a term of years without reference to age or marriage does not comply

with the terms of the Section, and cannot attract relief (*White* v. *Whitcher*, 1927, 13 T.C. 202). The Section must be construed as if it read: ". . . is accumulated for the '*exclusive*' benefit of any person contingently '*only*' on his attaining some specific age or marrying" (*C.I.R.* v. *Maude-Roxby*, 1950, 31 T.C. 385). It is not essential that the beneficiary has to have an interest in the capital of the fund on the happening of the contingency; it is sufficient if he is to have a life interest on the attainment of the specified age (or marriage) (*Dale* v. *Mitcalfe*, 1927, 13 T.C. 41). There can be no claim if the right to the income is wholly at the discretion of the trustee (*Dain* v. *Miller*, 1934, 18 T.C. 478). "Section 228 does not apply (*a*) unless on the attainment by the beneficiary of the specified age or on his marrying and nothing else, some accumulation comes to an end and something is transferred to him . . . (or) (*b*) if there is a double contingency and only one has been fulfilled . . . (or) (*c*) if the contingencies are contingencies with which the Act has nothing to do" (*ibid.*, pages 486/7).

Section 228 does not apply to vested income, and on the child coming of age he can claim allowances only for the past six years on such income. On the other hand, if the interest is contingent on reaching the specified age or marrying, the beneficiary can claim allowances for the whole period of contingency to the extent that these have not already been given. A good example of a vested interest is seen in *Jones* v. *Down*, 1936, 20 T.C. 279, where A. transferred certain stock to his son B. and another, to be held in trust to accumulate the dividends and transfer the stock to B.'s daughter when she married or came of age. It was held that her interest was vested.

Any income tax recovered on a claim under Section 228 belongs to the beneficiary (*re Fulford: Fulford v. Hyslop*, 1929, 8 A.T.C. 588). Section 228 cannot operate as regards settlements on minors under which, for income tax purposes, the income is to be deemed to be the income of the settlor. If, however, the result of treating the income as that of the settlor under Part XVIII of the Income Tax Act, 1952, is to entitle him to a repayment of tax, the tax so repaid belongs to the beneficiary under the settlement (Sections 394 and 400).

Should the result of grossing-up amounts spent on education and maintenance exceed the income of a particular year, it does not seem to be the practice to apply Section 170 to the excess if there is income of earlier years to cover it. The excess is then regarded as taxed at the rates in force in the earlier years, the beneficiary being given the option of choosing the years to his best advantage.

In the following example, to economise space, only two years are given, but the same method is applicable to all relevant years.

A., who died in 1947, left certain funds in trust to accumulate until B. reached the age of 21, or married under that age, and if the contingency happened, to be paid over to him on his 21st birthday. B. was maintained and educated out of the income. He also had other income as shown.

For 1947/48 and 1955/56 the relevant figures were as follows:

	1947/8 £ s.	1955/6 £
Income from A.'s trust funds (gross)	500 10	520
Maintenance, etc., payments	27 10	240
B.'s other income		
From a vested trust (gross)	50 0	50
From an employment ..		300

B. married in 1955 and his 21st birthday was January 19, 1957.

The repayment claims are:

	1947/8 £	1955/6 £	£ s. d.
Grossed maintenance ..	50	—	
Vested income	50	570	
Remuneration	—	300	
	100	870	
Reliefs			
Personal £100 at 9/–=	£45	240	
Earned Income		67	
		£307 at 8/6	130 9 6
Reduced rates		On £360	60 0 0
Repayment	£45		£190 9 6

On marriage, which has the same effect as coming of age:

re 1947/48		£ s. d.
Personal (balance)	£10 at 9/– =	4 10 0
Reduced Rates	£50 at 6/– =	15 0 0
	£75 at 3/– =	11 5 0
Repayment		£30 15 0

The 1955/56 claim is on the whole income, because of the marriage. For each year prior to 1955/56 the reliefs not allowed year by year can be claimed (as shown for 1947/48).

Company Winding-up and Reconstruction—II*

By GEORGE A. GROVE, LL.M.

Income Tax

17. A number of problems concerning income tax can arise when a company, or group of companies, is wound-up or reconstructed. Perhaps the most important are in connection with assessments for opening and closing years. Since in general a company is subject to the same rules as an individual or partnership (*a*) when a new company commences to trade, it is assessed for the year of assessment in which the business is commenced on the actual profits of the year, and for the next year on the actual profits of the first period of twelve months, subject to the right of the company to opt to be assessed for the second and third years of assessment (but not for one of those years only) on the actual profits of those years, and (*b*) when a company ceases to trade, whether as the result of being wound up or not, it is assessed for the year of assessment in which the business is discontinued on the actual profits of the year, and the Inland Revenue, though not the taxpayers, have the option to tax the profits of the penultimate year on the basis of the actual profits of the year, raising an additional assessment for that purpose where necessary.

18. Thus the choice of the date on which a company shall cease trading is or can be a matter of considerable importance. One must always consider what the profits of the penultimate and ultimate years will be, according to whether the company ceases trading before or after April 6 in any year. Generally speaking, and having regard only to this aspect of the matter, the best time to wind-up or reconstruct is during a period of declining profits. Where the application of the "cessation" and "new business" provisions would result in the payment of an increased sum for income tax, in the past recourse was sometimes had to the following expedient. A. Ltd. wished to sell the whole of its undertaking and assets to B. Ltd. The first step was for A. Ltd. to enter into partnership with X., carrying on, but now in partnership, the same business as before; then A. Ltd. retired from the partnership; next X. took B. Ltd. in partnership; and finally X. retired from the partnership; on each change the persons concerned elected pursuant to Section 19 (3) of the Finance Act, 1953, and the profits were accordingly assessed on the basis of a continuing business.

19. A considerable change was, however, made in the rules stated in paragraph 17 above by Section 17 of the Finance Act, 1954, which applies to changes in the year 1954–55 or any subsequent year of assessment. By virtue of sub-Section (1) thereof, a trade carried on by a company, whether alone or in partnership, is not to be treated for any of the purposes of the Income Tax Acts as permanently discontinued, nor a new trade as set up and commenced, by reason of a change in the persons engaged in carrying on the trade, if the company is the person or one of the persons so engaged immediately before the change and on or at any time within two years after the change the trade or an interest amounting to not less than a three-fourths share in it belongs to the same persons as the trade or such an interest belonged to at some time within a year before the change. The Section applies notwithstanding that some other change prior or subsequent to the first mentioned change intervenes between the times taken for the comparison under sub-Section (1), and if the prescribed conditions are (or continue to be) satisfied by reference to a time after some subsequent change (but still within two years after the first mentioned change) the trade is not to be treated as permanently discontinued, nor a new trade as set up and commenced, by reason of that subsequent change. Moreover, by sub-Section (3), if a trade is permanently discontinued, but on the discontinuance the activities of the trade or part of them are carried on by some person as his trade or as part of his trade, the Section applies as if the two trades were the same trade, and they are treated for tax purposes as if they were the same trade and as if, instead of the discontinuance, there had been a change in the persons engaged in carrying on that trade. By sub-Section (5), a trade or interest therein belonging to a company engaged in carrying it on is regarded as belonging to the holders of the Ordinary shares in proportion to the amount of their holdings, or in the case of a subsidiary company, as belonging to the parent company, or to the holders of the Ordinary shares of the parent company in proportion to the amount of their holdings. Finally, by sub-Section (7), for this purpose persons who are relatives of one another (that is, husband, wife, ancestor, lineal descendant, brother or sister) and persons entitled to the income under a trust are respectively treated as a single person.

20. Thus in general on a reconstruction the company that sells its undertaking and the company that purchases it will be regarded as carrying on a single, continuing trade, and the "cessation" and "new business" provisions will not apply, though the tax down to the date of the change will be payable by the selling company and the tax as from that date will be payable by the purchasing company. If the application of the "cessation" and "new business" provisions will result in a substantial saving of

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tax, care must be taken to effect the necessary changes in the Ordinary shareholders, and to ensure that more than twenty-five per cent. of the Ordinary shares in the purchasing company are held by persons who did not hold Ordinary shares in the selling company. The necessary alteration cannot be effected by means of the shareholders in the latter company making gifts or settlements of shares in the purchasing company to or for the benefit of their "relatives."

21. Another important income tax matter for consideration is that of losses. If the company is simply wound-up, the potential tax benefits resulting therefrom are lost, and in such circumstances if the company is solvent the more usual course, where practicable, is to discharge the liabilities and distribute the surplus assets without any liquidation, and then to sell the shares to some person who wishes to employ the company to carry on the same business, so as to be able to carry forward the losses. In the case of a sale of the undertaking and assets of the company, the general rule is, or was, that losses can only be carried forward and allowed against the profits of the same business, under the same legal proprietorship, so that the new company is not entitled to the benefit of losses incurred by the old company, even in a case in which the amalgamation has been sanctioned by the Court—*United Steel Companies* v. *Cullington* (*No. 2*) [1940] A.C. 812. The special provisions of Section 343 of the Income Tax Act, 1952, giving relief in respect of losses if a business is transferred to a company apply only if the business that is transferred to the company was previously carried on by an individual, or by individuals in partnership, and so have no application where a company is reconstructed. But if by reason of Section 17 of the Finance Act, 1954, the transfer of the business from one company to another does not involve a cessation, the losses can be carried forward. The provisions of Section 19 (2) of the Finance Act, 1953, as to carrying forward losses where there is a change in the constitution of a partnership, may be compared. The consideration of this question of losses is, of course, all the more important since today, by virtue of Section 27 of the Finance Act, 1952, they can in general be carried-forward without any limit as to time.

22. The only other matter relating to income tax that it is necessary to mention concerns balancing allowances and charges, in respect either of machinery and plant, or of industrial buildings, the former being dealt with by Sections 292 *et seq.* of the Income Tax Act, 1952, and the latter by Section 267. This question, like that relating to losses, will arise only if a company sells its undertaking and assets, or is wound-up; neither will arise if the reconstruction involves only the sale of the shares in a company that continues its business as before. This is, however, a matter with which accountants are so familiar that I do not think it necessary to pursue it.

Surtax

23. The general rule is that when, on the winding-up of a company, the undistributed profits of past years and of the year in which the winding-up occurs are distributed amongst the members, they have ceased to retain the quality of profits and have become assets only, in which character the shareholders receive them, and so the latter are not assessable for surtax in respect of them—*C.I.R.* v. *Burrell* [1924] 2 K.B.52. Except in so far as the effect thereof is stultified by directions given by the Commissioners pursuant to Sections 245 *et seq.* of the Income Tax Act, 1952, this rule is still completely operative. But those Sections limit its operation severely in the case of any company which is under the control of not more than five persons and is not a subsidiary company or a company in which the public are substantially interested. The full definition is to be found in Section 256 of the 1952 Act; as pointed out above in paragraph 9, this definition has been adopted, though with modifications extending its scope, for estate duty purposes by the Finance Act, 1940.

24. In the case of a company of the kind defined in Section 256, under Section 245 where it appears to the Special Commissioners that it has not, within a reasonable time after the end of any year or other period for which accounts have been made up, distributed to its members, in such manner as to render the amount distributed liable to be included in their statements of total income for surtax purposes, a reasonable part of its actual income from all sources for the said year or other period, the Commissioners may direct that, for purposes of assessment to surtax, the said income of the company shall, for the year or other period specified in the notice, be deemed to be the income of the members and the amount thereof shall be apportioned among the members. The effect of a direction is that the entirety of the undistributed income of the period is apportioned, and not only that part thereof which would have constituted a reasonable distribution. It is provided by Section 246 (1) that, in determining whether a company has or has not distributed a reasonable part of its income, regard is to be had not only to the current requirements of the company's business but also to such other requirements as may be necessary or advisable for the maintenance and development of that business. But in the case of an investment company, defined by Section 257 (2) as a company the income whereof consists mainly of investment income—that is, income which in the case of an individual would not be earned income—under Section 262 (1) the whole of its actual income from all sources for every year of assessment, however much or however little thereof has been distributed to members, is deemed for the purposes of assessment to surtax to be the income of the members, and the Commissioners must give a direction in each year of assessment without considering whether or not the company has distributed a reasonable part of its income. But special provision is made in the case of investment companies, all or part of whose income consists of "estate or trading income," that is, income chargeable to income tax under Schedule A or Schedule B, income arising in respect of the ownership or occupation of land which is chargeable to income tax under Schedule D, and income which is not investment income.

25. In the case therefore of a company not within the

Section 256 definition, surtax considerations are not likely to give rise to any difficulty; to distribute accumulated profits in a winding-up rather than by way of dividend is an obvious method of saving surtax. In the case of companies within the definition, it is first necessary to consider the possibility of directions being given in respect of the years prior to that in which the winding-up commenced. Of course, if for the last six years the company has transmitted its accounts to the Special Commissioners and obtained clearances pursuant to Section 252, no difficulty will arise, and I find it somewhat surprising that more accountants do not advise their companies to take advantage of this procedure year by year. Equally, if the company is "under the Chancellor's umbrella" by reason of not having decreased its dividends since 1947, and of not having resorted to any device for the distribution of sums not taxable in the hands of the recipients, there will be no difficulty, since a clearance will automatically be obtained under Section 252. In other cases it is necessary to give careful consideration to the question whether or not the company has distributed a reasonable part of its income year by year. This is a matter which must be tested in the light of the circumstances prevailing in each year when the directors and members had to determine what, if any, distribution should be made. The year prior to that in which the winding-up commenced requires particularly careful consideration, since, by the time the question of what distribution to make was before the directors and members, they may well all have been fully aware of the fact that a winding-up was imminent. Under Section 246 (1), however, it is the requirements of the business, not of the company, to which regard must be paid, and it does not follow that because all the persons concerned know that the company is shortly to be wound-up it is unreasonable to retain undistributed profits. If in the winding-up it is proposed to sell the business as a going concern with its cash reserves, which a purchaser will require for the purposes of the business, it appears to be quite proper to continue building up those reserves. Thus in *A. & J. Mucklow Ltd.* v. *C.I.R.* [1954] Ch. 615, a case which I deal with below, it appears from page 647 of the report that the Special Commissioners had discharged a direction in respect of the penultimate year of the company's trading.

26. Special provisions for companies in liquidation are made by Section 253 (and, as to investment companies, by Section 263). The income of the company for the period from the end of the last year or other period for which accounts have been made up to the time of the commencement of the winding-up is, for the purposes of Section 245, to be deemed the income of that period available for distribution to the members of the company, and, as respects that period and the next preceding year or other period, Section 245 is to apply as if the words "within a reasonable time" were omitted therefrom. It was long thought, in reliance on the decision in *H. Collier & Sons Ltd.* v. *C.I.R.* [1933] 1 K.B. 488, that the effect of this provision, which was formerly contained in Section 31 of the Finance Act, 1927, was to make all income from the last accounting date down to the date of the commencement of the winding-up both subject to a direction and available for distribution. But it was held by the Court of Appeal in *A. & J. Mucklow Ltd.* v. *C.I.R.* (*supra*) that, where a company is in liquidation, the Section does not impose automatic liability in respect of the income of the broken period, but leaves open the question whether there was any unreasonable withholding of income from distribution, on the hypothesis that such income was capable of being distributed notwithstanding the winding-up. That statutory hypothesis is necessary because of course, by reason of the winding-up, no distribution of income as income between the members is possible. In *Mucklow's* case it was also held, following the decision of the House of Lords in *Thomas Fattorini (Lancashire) Ltd.* v. *C.I.R.* [1942] A.C. 643, that the onus of proving that the company acted unreasonably in withholding income from distribution is upon the Crown, but that where the undertaking is to be sold (in that case on a reconstruction) the needs of the new company are not a relevant consideration.

Profits Tax

27. Where the reconstruction of a company takes the form of a sale of its shares, there is usually no difficulty concerning profits tax, though of course the purchasing company will have to take into consideration the undistributed profits reliefs accumulated by the first named company. For this reason it may be advantageous to reconstruct in such a way that the shares, and not the undertaking and assets, are sold. Moreover, if B. Ltd. is a wholly owned subsidiary of A. Ltd. and P. Ltd. wishes to purchase the business of B. Ltd. the most advantageous course to adopt from the profits tax point of view, if P. Ltd. is willing, is for the shareholders of A. Ltd. to sell their shares to P. Ltd. If B. Ltd. sells its undertaking and assets this will have to be followed by a distribution of the cash or shares received from P. Ltd. in satisfaction of the purchase price; if A. Ltd. sells the shares it holds in B. Ltd., again this will have to be followed by a distribution; and in each case profits tax at the higher rate will become payable. If, however, A. Ltd. owns assets other than the share capital of B. Ltd., it will or may first be necessary to "hive off" these other assets.

28. The definition of "distribution" for the purposes of profits tax is contained in Section 36 (1) of the Finance Act, 1947, and is as well known as it is important.

> 36 (1). Subject to the provisions of the next succeeding sub-Section, wherever—
> (*a*) any amount is distributed directly or indirectly by way of dividend or cash bonus to any person; or
> (*b*) assets are distributed in kind to any person; or
> (*c*) where the trade or business is carried on by a body corporate the directors whereof have a controlling interest therein, an amount is applied, whether by way of remuneration, loans or otherwise, for the benefit of any person,
> there shall be deemed for the purposes of the last preceding Section [which defines the meaning of the expression "gross relevant distributions to proprietors"] to be a distribution to that person of that amount or, as the case

may be, of an amount equal to the value of those assets;

Provided that no sum applied in repaying a loan or in reducing the share capital of the person carrying on the trade or business shall be treated as a distribution.

That proviso has been amended by the Finance (No. 2) Act, 1956, so as to negative the decision of the House of Lords in *C.I.R.* v. *Universal Grinding Wheel Co. Ltd.* [1955] A.C. 807, in which it was held that when redeemable Preference shares were redeemed in accordance with the articles of association of the company at a premium, the premium was a sum "applied in . . . reducing the share capital," and so did not constitute a distribution. Now, however, no sum is within the proviso if it exceeds the amount of the reduction made in the total nominal amount of the company's paid-up share capital. Moreover, under Section 31 of the Finance Act, 1951, where after April 6, 1949, a company capitalises any distributable sum, and then or thereafter, but after April 10, 1951, any sum is applied in reducing its capital, there is deemed to be a distribution to the members of the company of an amount equal to the sum so applied or to the total amount of the distributable sums previously capitalised, whichever is the less, taking place when the sum is so applied; and where a company after April 10, 1951, applies any sum in reducing its capital, and then or thereafter capitalises any distributable sum, there is deemed to be a distribution to the members of an amount equal to the distributable sum so capitalised or to the total amount of the sums previously applied in reducing capital, whichever is the less, taking place at the time of the capitalisation. Thus the former simple device of avoiding a distribution, and therefore avoiding a distribution charge, by first capitalising a sum, and then, with the sanction of the Court, repaying share capital, is no longer available. But where there has been no capitalisation of any distributable sum in or since April, 1951, the charge can still be avoided by effecting a reduction of capital, and the fact that the purpose of the reduction is to avoid profits tax is not a relevant consideration for the Court when deciding whether or not to sanction the reduction—*Ex parte Westburn Sugar Refineries Ltd.* [1951] A.C. 625. Similarly, amounts distributed amongst members on a winding-up, up to the extent of the paid-up capital, will not constitute "distributions" for profits tax purposes. Moreover, where shares have been issued at a premium for cash, by virtue of Section 35 (1) of the 1947 Act the aggregate of the amounts of the premiums may also be distributed without attracting profits tax at the higher rate.

The recent decision in *C.I.R.* v. *Pollock & Peel Ltd.* [1956] 1 W.L.R. 951 leaves one further loophole of this kind still open. In this case the company, which was incorporated in 1942 with a paid-up capital of £2,004, increased its capital to £30,060 by a bonus issue in 1952. On October 31, 1953, the company went into liquidation for the purposes of reconstruction, and a new company was formed which took over the whole of its assets except for a sum of cash retained by the liquidator. The consideration for the transfer was an issue of shares in the new company. The two companies exercised their right of election under Section 36 (4), Finance Act, 1947, and the liquidator in due course distributed to the shareholders £15,030 in cash, together with the shares in the new company. The Revenue claimed that by virtue of Section 31, Finance Act, 1951, the excess of £15,030 over £2,004, the amount of the company's share capital prior to the bonus issue, fell to be treated as part of the gross relevant distributions of its final chargeable accounting period.

It was held that the distribution of cash by the liquidator in a winding-up could not properly be described as a "repayment or return of share capital" within Section 31 of the Finance Act, 1951, and that, even it it were so regarded, the effect of Section 31 was that the sum in question, although treated as part of the distributions of the company, did not (being a distribution of capital) fall to be treated as part of the gross relevant distributions.

The judgment of Mr. Justice Upjohn in this case contains an interesting survey of the whole of the circumstances arising in relation to Section 31 of the Act of 1951. He distinguishes clearly between reductions of capital coming within the terms of this Section and distributions by a liquidator in the course of a winding-up.

The case is now under appeal.

29. On a reconstruction the following provision of the Finance Act, 1947, is of especial interest.

36 (4). Where—

(*a*) as part of a scheme of amalgamation or reconstruction a trade or business carried on by a body corporate (in this sub-Section referred to as "the first company") is transferred to another body corporate (in this sub-Section referred to as "the second company");

(*b*) the consideration for the transfer consists wholly or mainly of shares in the second company; and

(*c*) the first and second companies jointly so elect by notice in writing given to the Commissioners within six months after the transfer or such longer time as the Commissioners may in any case allow,

the provisions of this Part of this Act [which part is headed "The Profits Tax"] shall apply subject to the following modifications, that is to say—

(i) any distribution of those shares to any person in a winding-up of the first company shall, notwithstanding anything in sub-Section (1) of this Section, not be deemed for the purposes of the last preceding Section to be a distribution to that person; and

(ii) in considering what distribution charge, if any, falls to be made on the second company, any difference on which non-distribution relief for chargeable accounting periods before the transfer was given to the first company or other person assessable to profits tax on the profits of the trade or business of the first company shall, except so far as it has already operated to increase a distribution charge on the first company, be taken into account as if it had been a difference arising in relation to the second company on which non-distribution relief had been given to that company, and shall also be taken into account, in the case of the last chargeable accounting period of the second company, so as to increase the amount which, for

the purposes of paragraph (*c*) of sub-Section (1) of the last preceding Section, is to be treated as not a distribution of capital.

30. The effect of this sub-Section is that, if there is a scheme of amalgamation or reconstruction, and if as part thereof a trade or business is transferred from one company to another, and if the consideration consists "wholly or mainly" of shares in the second company, and if both companies so elect, the distribution in the winding-up of the first company of the shares received by way of consideration is not a distribution for profits tax purposes, and any contingent liability to a distribution charge arising from the liquidation of the first company is carried forward and taken into account as if it were, and always had been, a contingent liability of the second company.

31. Where there is a principal company and one or more subsidiaries each is dealt with as an entirely separate body for profits tax purposes, unless and until the principal company gives to the Commissioners a "grouping notice" pursuant to Section 22 (1) of the Finance Act, 1937. Such a notice operates in respect of the chargeable accounting period for which it is given and all subsequent chargeable accounting periods throughout which the subsidiary company continues to be a subsidiary of the principal company. Thus, once given, such a notice cannot be revoked, save in the special case provided in Section 38 (5) of the Finance Act, 1947, though it automatically ceases to operate when the subsidiary ceases to be a subsidiary. The relation of principal and subsidiary exists if the principal owns at least three-quarters of the ordinary share capital of the subsidiary, whether the capital is owned directly or through other corporate bodies. The effect of a grouping notice is, broadly, that the profits and losses of the subsidiary are treated as profits and losses of the principal, and all inter-company dividends are ignored. Where an amalgamation or reconstruction involves one company ceasing to be the subsidiary of one, and becoming the subsidiary of another company, or in other words, changing from one group to another, difficult questions may arise, but they cannot conveniently be considered here.

[*To be concluded*]

Written-down Values of Motor Vehicles

By PETER F. CRAWSHAW, A.A.C.C.A.

WHEN A MOTOR car, van or lorry on which capital allowances have been given is sold, and in some other circumstances, it is usually necessary to know its written-down value, or capital expenditure still unallowed for income tax purposes, so that any possible balancing allowance or charge can be calculated. If a business owns a number of motor vehicles and past wear and tear computations have been confined to a single column, taking all the vehicles together, the written-down value of any particular vehicle will not be readily available and has to be calculated. In such cases the arithmetical work involved can often be reduced by using a table similar to that given here.

The circumstances for which this table is intended are: (i) that the taxpayer is an established business assessed under Case I of Schedule D on the normal preceding year basis (and so is not affected by opening or closing year provisions); and (ii)

WRITTEN-DOWN VALUES

Income tax year applicable to basis year in which expenditure incurred		*Percentage at end of income tax year (after deducting income tax allowances)*									
		1947/8	1948/9	1949/50	1950/1	1951/2	1952/3	1953/4	1954/5	1955/6	1956/7
1947/8	(*a*)	55.00	41.25	30.94	23.20	17.40	13.05	9.79	7.34	5.51	4.13
1948/9	(*a*)		55.00	41.25	30.94	23.20	17.40	13.05	9.79	7.34	5.51
1949/50	(*a*)			55.00	41.25	30.94	23.20	17.40	13.05	9.79	7.34
1950/1	(*a*)				55.00	41.25	30.94	23.20	17.40	13.05	9.79
	(*b*)				35.00	26.25	19.69	14.77	11.07	8.31	6.23
1951/2	(*b*)					35.00	26.25	19.69	14.77	11.07	8.31
1952/3	(*b*)						35.00	26.25	19.69	14.77	11.07
1953/4	(*b*)							35.00	26.25	19.69	14.77
	(*c*)							75.00	56.25	42.19	31.64
1954/5	(*c*)								75.00	56.25	42.19
	(*a*)								55.00	41.25	30.94
1955/6	(*a*)									55.00	41.25
	(*c*)									75.00	56.25
1956/7	(*a*)										55.00
	(*c*)										75.00

(*a*) If initial allowance claimed on cost at 20 per cent.—normally applicable to expenditure in the above periods up to April 5, 1949, and on or after April 15, 1953, except if investment allowance given.

(*b*) If initial allowance claimed at 40 per cent.—normally applicable to expenditure between April 6, 1949, and April 5, 1952.

(*c*) If no initial allowance—normally applicable to expenditure between April 6, 1952, and April 14, 1953, and to expenditure after April 6, 1954, on which investment allowance given.

that the vehicle in question had been in full business use and there were obtained on its cost, in the first year, allowances totalling 25 per cent., 45 per cent. or 65 per cent. and thereafter 25 per cent. (5/4 of 20 per cent.) annually on the reducing written-down value. The percentages represent normal rate of write-down for motor vehicles, provided they are purchased outright and brought into use within the same accounting year.

Before using the table, it should be confirmed that the conditions as given in the preceding paragraph apply. Instances where (ii) may not apply, and the rate of write-down will therefore be different from that in the table, include vehicles on hire-purchase or credit sale, where initial allowance has been spread over several years; vehicles such as certain omnibuses, electric trucks and the like, which are subject to annual allowances other than 5/4 of 20 per cent. and any vehicles on which straight-line wear and tear or research allowances have been claimed.

As the percentages are stated to the nearest two decimal points, the table may be used for vehicles, or groups of vehicles, costing up to £10,000 in any one accounting year.

Taxation Notes

Facts

It is trite law that a finding of fact by Appeal Commissioners cannot be disturbed by the Courts unless the stated case shows a misdirection or shows there was no evidence to support the decision of the Commissioners. An inference from facts is a finding of fact, but it can be reversed by the Court if based on an incorrect view of the law. In his judgment in *Edwards* v. *Bairstow and Harrison* [1955] 3 W.L.R. 410, Viscount Simonds, L.C., said that in that case the primary facts did not justify the inference made by the Commissioners; they led irresistibly to the opposite conclusion. What are the characteristics of an adventure in the nature of trade is a question of law, not of fact, and such an inference could be regarded as an inference of fact only if it was assumed that the tribunal which made it was rightly directed in law on what the characteristics were.

Market Value

The Council of the Institute of Chartered Accountants in England and Wales in its recommendations on the value of stock-in-trade states that the expression "market value" is commonly interpreted as either: (i) the price at which it is estimated that the stock can be realised either in its existing condition or as incorporated in the product normally sold after allowing for all expenditure to be incurred before disposal, or (ii) the cost of replacing the stock at the accounting date. The Council recommends that the first method be used. If the second is used, the value should be stated to be "at the lower of cost and replacement value" but in no case should it exceed market value as in (i) above.

The Revenue appears to regard the first method as that appropriate for tax purposes, although in the *Brigg Neumann* case (12 T.C. 1191) the second method, allowed by the Special Commissioners, was approved by the Court. Following the dictum of Viscount Simonds in *Sharkey* v. *Wernher* (1955, 3 All E.R. 493) that "the true proposition is not that a man cannot make a profit out of himself but that he cannot trade with himself", it may be more difficult to resist the Revenue view.

Clitas

Release 35 of the *Current Law Income Tax Acts Service*, dated October 1, 1956, contained recent Inland Revenue circulars on surtax, on assessments under Schedule D Cases I and II, on changes in accounting dates, and on double taxation relief. The appropriate reliefs and National Insurance contributions for the years 1954/55 to 1956/57 inclusive are included. The double taxation relief orders are brought up to date by the inclusion of the Federation of Rhodesia and Nyasaland Double Taxation Order and details of the exchange of notes extending, as regards income tax, the Netherlands Order to the Netherlands Antilles.

The *Taxation* Conference—

The sixth *Taxation* Conference was held in Edinburgh from September 28 to October 1, and was attended by nearly 1,000 persons.

Mr. Ronald Staples, the conference chairman, spoke in his inaugural address of the "lumbering, antiquated tax machine," and said that the whole system might collapse if there were any recalcitrance on the part of taxpayers in general, or any more pressure on the staff of the Inland Revenue.

Recent ill-informed criticism on directors' expenses was an unwarranted reflection on the Inspectors of Taxes. Inspectors were not fools, nor were they asleep. If unreasonable expenses were charged by unscrupulous executives, that was a matter between them and their shareholders, but taxpayers could rest assured that the amount slipping through the Revenue net must be small indeed.

The taxpayer was entitled so to arrange his affairs as to attract as little liability to tax as possible; and if the intention of Parliament was not clearly expressed in the law the subject must escape. If the closing of a loophole was justified, Parliament should close it. A strict interpretation of the Acts had often prevailed over the obvious intention of Parliament when the result was to the detriment of the taxpayer.

Papers given, in addition to that by Mr. James S. Heaton (see the next note) were:

"Interpretation of the Income Tax Acts," by Mr. Henry Barton, C.B.E.

"Pensions and the Finance Act," by Mr. Gordon A. Hosking, F.I.A., F.S.S., F.I.S.

"Relationship between Inland Revenue and Practitioners," by Mr. R. A. Snook.

"Taxation and Industry," by Mr. S. Paul Chambers, C.B., C.I.E.

"Surtax on Companies," by Mr. Peter F. Hughes, A.S.A.A., F.C.I.S.

Mr. T. A. Hamilton Baynes, M.A., F.C.A., was the questionmaster at an open forum, with a panel composed of Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., Mr. Gerald S. Hamilton, A.C.A., Mr. J. M. Cooper, A.A.C.C.A., A.C.I.S., and A. N. Other.

The Rt. Hon. The Lord Provost of Edinburgh, Sir John G. Banks, C.B.E., J.P., gave a civic welcome at the opening session of the conference, and all members and their ladies were invited to a reception and dance given by the Rt. Hon. The Lord Provost and the magistrates and council of the City of Edinburgh. A special service was held on the Sunday morning at St. Giles' Cathedral.

—And Mr. Heaton on Schedule E Expenses

Mr. James S. Heaton, F.S.A.A., gave an address on "Schedule E Expenses." The chair at the session was occupied by Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., President of the Society of Incorporated Accountants. Mr. Heaton said that in the first half of the rule, which dealt with travelling expenses, the Royal Commission pointed out that "necessarily obliged" meant no more than "obliged." The Revenue held that "obliged" meant that the expenses concerned must be ascertainable from the terms of the employment or from its intrinsic nature. In either sense, it seemed that it fell to the employer to interpret the obligations. The second requirement was that travelling should be undertaken in the performance of the duties: it was well known that the rigidity of that part of the rule provided hard cases. There was a Revenue concession for the non-executive director of a number of companies, whose non-deductible expenses might well exceed the taxed fees.

The case of *Nolder* v. *Walters* (15 T. C. 380) gave some comfort to both sides, but its background caused difficulties where the employer made a scale allowance for travelling expenses. If the scale was inadequate the Revenue would not allow any further deduction.

The rule on other expenses repeated the words "obliged" and "necessarily," and added "wholly" and "exclusively." If an expense had dual aspects, the Millard Tucker Committee felt that there was nothing to prevent its apportionment.

The 1948 legislation applied (with some exceptions) to directors and to employees whose gross emoluments were £2,000 a year or more. Dispensations were at first issued too liberally, and subsequent withdrawals caused much dissatisfaction. But perhaps the difficulty could now be considered a transitional one.

Building Societies and Income Tax

The composite rate of income tax payable by building societies is to be 5s. 4d. in the £ for 1956/57, an increase of 6*d.* in the £ on the rate for 1955/56. The rate is the highest since the war. It is the weighted average of the rate of tax of investors in building societies. A society pays tax at the composite rate on the interest and dividends on deposits and shares beneficially owned by an individual whose total holding in the society does not exceed £5,000 (husband and wife being counted as one for this purpose), by a registered trade union, or by a body exempted from tax under Schedule D. The composite rate is also charged on the income tax paid on the above items. Interest and dividends on other holdings bear income tax, payable by the society, at the standard rate. A society is also assessed to income tax at the standard rate on the excess of its profits over the total of the net interest and net dividends paid and the income tax paid upon them.

The building societies had generally expected an increase in the composite rate of tax this year, and it was one of the factors taken into the reckoning when mortgage rates were raised recently. Nevertheless, a number of societies will probably find that the additional tax charge will make inroads into their surplus carried forward.

Purchased Annuities

The relief given by the Finance Act, 1956, in respect of purchased life annuities is on the proportion of the annuity that the actuarial value bears to the annuity multiplied by the annuitant's expectation of life. In other words, the capital element in the annuity is the purchase price divided by the expectation of life.

For example, if a man aged 65 (at which age the expectation of life according to the prescribed tables is 13.936 years) pays £1,000 for an annuity of £100, the capital element in each payment of the annuity is £1,000÷13.936=£71 15s. 0d.

Increased Rates of Profits Tax and Increased Dividends

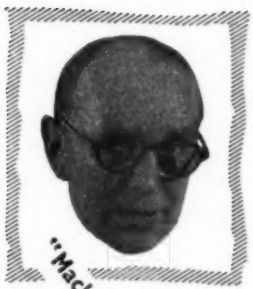
We regret that owing to a drafting oversight in the illustration on page 363 of the September issue, the excess dividend for 1954/55 was not restricted to the amount paid after October 25, 1955. The figures below should be substituted for those in the note.

In view of Paragraph 4 (4), Proviso (*b*), the governing total for the accounting period the year to April 30, 1956, was £10,800.

Dividends paid				*Chargeable Accounting Period*				
				1.5.54 *to* 30.4.55	1.5.55 *to* 31.10.55	1.11.55 *to* 31.3.56	1.4.56 *to* 30.4.56	1.5.56 *to* —
		£		£	£	£	£	£
30.9.56	..	7,200	..	7,200	—	—	—	—
26.10.55	..	3,600	..	—	—	3,600	—	—
26.10.55	..	4,200	..	—	2,100	1,750	350	—
12.8.56	..	8,400	..	—	3,300	2,750	550	1,800
				7,200	5,400	8,100	900	1,800

"Why is Blank Ltd.'s order held up?"

"We want to know..."

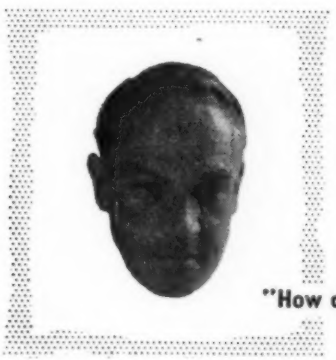


"Machine loading or output?"

"Why is Blank Ltd.'s order held up?"

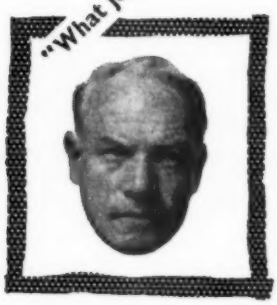
It sounds simple enough, yet countless hours can be wasted every day in trying to locate simple facts. We have the answer . . . and so can you, simply, directly and efficiently from information that is always up-to-date and ready to hand. Post the coupon today for details.

"What orders are overdue?"



"How do our contract and export orders stand?"

"What jobs need chasing today?"



Kalamazoo

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Please send me, without obligation, details of the Kalamazoo Order Control Systems.

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Firm .....

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AC .....

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Trade—Deduction in computing profits—Company operating railway abroad—Local social legislation—Sums payable to employees on cessation of employment—Total sum payable only then calculable but irreducible sum payable in respect of each year of service—Forfeiture for misconduct or breach of contract by employee—Whether minimum sums to be regarded as deferred remuneration for the year in respect of which payable and allowable in computing profits of that year—Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3.

Owen *v.* Southern Railway of Peru Ltd. (House of Lords, June 21, 1956, T.R. 197). This important case was the subject of extended notes in these columns in ACCOUNTANCY for January and August, 1955 (pages 26–7 and 307–8). An article on it appeared in the issue of March, 1955 (pages 102–3). The recent decision of the House of Lords was discussed in a Professional Note "Contingencies and Profit" in our issue of September, 1956 (pages 343–4). In that note the main question in the case and their lordships' majority opinions on it were set out and the significance of the decision indicated.

In addition to what was set out in the note, the speeches in the case included much of importance. It may be remarked that whilst Earl Jowitt and Lords Oaksey, Radcliffe and Tucker agreed that the company's appeal should be dismissed, Lord MacDermott was opposed to this course, holding that is should be referred back to the Special Commissioners to see if they could solve the problem of applying the principle which all save Lord Oaksey held to be the right one. Lord Oaksey's was the real minority opinion; and, although he found himself alone, his examination of the nature of the "contingency" in the *Sun Insurance Office* case (1912, A.C. 443; 6 T.C. 39) was acute. In his view, the liability in that case was not contingent, the circumstances of loss not putting an end to the liability, but merely making payment obligatory in pursuance of the liability. He held that the reasoning and judgments in the Court of Appeal were correct. In effect, this meant that if the liability to the individual employee was contingent then the whole aggregate of such liabilities was also contingent. As to this argument, Lord MacDermott said that the question was not whether in a given year the company's liability to pay this employee or that was contingent but whether its liability to make some payment in respect of the lump sums accruing for the benefit of all its employees in that year was in any relevant sense contingent. Lord Radcliffe, in the course of his speech, with which Earl Jowitt and Lord Tucker agreed, said that when one was dealing with a number of similar obligations that arose from trading, although it might be true to say of each separate one that it might never mature, it was the sum of the obligations that mattered to the trader and experience might show that whilst each remained uncertain the aggregate could be fixed with some precision. In other words, both were agreed that the problem had to be approached not from the standpoint of what contingent benefit accrued to the individual employee from his services in a year, but from that of the trader, who, in the words of the Companies Act, 1948, had a "Known liability of which the amount cannot be determined with substantial accuracy" in respect of all his employees' services in that year. As regards the factual importance of the contingency element in computing the proper provision, whilst Lord MacDermott thought it insignificant, Lord Radcliffe held that in the circumstances of the case it amounted to nothing at all.

In the Court of Appeal and in the speeches of Lords MacDermott and Radcliffe, it was held that, assuming the company's contention to be correct in principle, its liability was not the aggregate of the nominal sums payable but their equivalent when discounted by reference to the fact that the amounts would be paid to the employee on retirement and would cover the whole period of his service. As Lord Radcliffe said, payment might be deferred for thirty or forty years. Both of their lordships were very doubtful whether a practical scheme could be devised to carry out what they held to be right and, in case of failure, held that the Crown's method would have to be followed. Lord Oaksey had pointed out in his dissenting opinion that the reserve approved in the *Sun Insurance* case was of a very different nature—and it may be observed that as the relevant facts are always known, the problem of applying that decision is purely arithmetical and presents no difficulty. In the present case it is otherwise, and exact evaluation of the correct provision is obviously impossible. Nevertheless, if both sides desire to implement the decision, it should not be beyond actuarial skill to devise a comparatively simple method giving a reasonably close solution. As has been seen Lord MacDermott held that the case should go back to the Special Commissioners to consider whether it was practicable to carry out the principle held to be correct; but the final words of Lord Radcliffe (Earl Jowitt and Lord Tucker agreeing) were: "To send the case back, when it is not even certain that a proper method can be found, is really to start it all over again. . . . That is to go beyond the functions of a final appeal."

The result of the case calls to mind the old saying that "a bad settlement is better than a good lawsuit."

Income Tax

Machinery and plant—Annual allowance—Motor car—Use for purposes other than trade—Abatement of annual allowance by reference to element of "personal choice"—Income Tax Act, 1952, Section 289.

G. H. Chambers (Northam Farms) Ltd. *v.* Watmough (Ch. June 26, 1956, T.R. 247) resulted in a victory for the Revenue and commonsense of more than ordinary importance. The appellant, the "one-man" company of Mr. G. H. Chambers, carried on business as fruit farmer at Northam Farm, Horsmonden, Kent, the farm having an area of about 75 acres. His private house was in the middle of the farm. A car was necessary for the purposes of the business and a Humber car, which was said to have proved expensive to maintain—why is not shown in the report—had been replaced by a secondhand Bentley car. In his evidence before the General Commissioners, Mr. Chambers had expressed his opinion that "the most expensive machinery was the best in the long run." The Bentley car, although secondhand, had cost no less than £6,995 and had a special Mulliner saloon body, expensively upholstered and fitted, which in a new car would have cost £2,500 extra. The annual

mileage had been between 7,000 and 8,000, mainly consisting of short journeys between the farm and Maidstone, some fourteen miles away. Mr. Chambers was the only driver of the car, his wife having a car of her own.

The question the General Commissioners had had to decide was what was the amount of the annual allowance to be made under Section 289 of the Income Tax Act, 1952, in charging the profits of the company's business. By that Section, an allowance may be made in respect of plant and machinery notwithstanding that it is also used "for purposes other than those of the trade," words which Vaisey, J., held "do not refer exclusively, or perhaps at all, to use by the trader and not by third parties." In such circumstances, the allowance was to be so much of what would otherwise have been made as was "just and reasonable,"

> having regard to all the relevant circumstances of the case,

an expression which, in the opinion of the judge, was about as wide as it was possible to imagine and necessitated looking at everything which concerned or touched the matter in question.

The gross capital allowance had been agreed at £1,749, and, by deducting one-twelfth (£145 15s.) for private running, £1,603 5s. was arrived at. It had been and was contended for the company that this was the allowance due and that, in view of the decision of Danckwerts, J., in *Kempster* v. *McKenzie* (1952, 31 A.T.C. 207; 33 T.C. 193), further deduction on the grounds of "personal choice or otherwise" would be wrong in law. The Commissioners, who had inspected the car, had come to the conclusion that its purchase had been not only to save the cost of maintenance of the discarded Humber car but had been dictated by "personal choice or preference" which "bore no relation to the requirements of the company's business." They had, therefore, according to the judgment, taken the agreed gross capital allowance of £1,749, reduced it by an "abatement for personal choice" of £1,020 5s. and then made a further disallowance of £145 15s. for private use, giving a net allowance of £583. (This figure was, curiously enough, although the fact is not mentioned in the report exactly one-third of the gross figure of £1,749.) Vaisey, J., affirming the decision of the Commissioners, held that they had done what was fair in concluding that £583 and no more was "just and reasonable" in the circumstances and, although a larger or smaller sum might have been fixed, he himself could not see that it was otherwise than right. The Commissioners, he said, had properly found that there was such an element of "personal choice or preference" as justified their taking it into consideration. This expression, which he found "curious," had first made its appearance under unfavourable conditions in *Kempster* v. *McKenzie*; but the facts had been vitally different, Danckwerts, J., holding that there was no evidence to justify the Commissioners' finding.

The most valuable feature of the present case would seem to be that Vaisey, J., gave the expression "personal choice or preference" careful judicial definition, declaring:

> What is meant by that expression is that the car would not have been bought by anyone who in considering the question of its purchase was directing his mind, solely and exclusively, to the necessities of the trader or of the trade as such.

The "ordinary man," however, will probably prefer the dictum of his lordship during the hearing, reported in *The Times:*

> I should have thought that no farmer outside a lunatic asylum would have bought a great luxury car like this for a farm.

Income Tax

Settlement—Power to release sums from settlement—Trust fund not to be reduced to below £100—Whether power to determine provision of settlement—Finance Act, 1938, Section 38.

Saunders v. C.I.R. (C.A. July 2, 1956, T.R. 267) was noted in our issue of December, 1955, at page 446. The facts in the case should be compared with those in *C.I.R.* v. *Countess of Kenmare*, noted in our issue of November, 1955, at page 427—see also page 456 of this issue—because, whilst in the lower Court the decision had been in favour of the Revenue in both cases, in the Court of Appeal it was otherwise. The latter had affirmed the decision of Danckwerts, J., who had reversed the decision of the Special Commissioners in favour of Lady Kenmare, but in the present case they unanimously reversed the decision of Wynn-Parry, J., who had upheld the Special Commissioners' decision in favour of the Revenue. The facts were comparatively simple. A Mr. Saunders on July 25, 1951, had made a settlement, the parties to it being himself of the one part and his son, wife, and solicitor of the second part. The deed recited that the settlor deserved to make an irrevocable settlement for the benefit of a class specified in a schedule and had transferred to the trustees the sum of £100, a modest amount that had been made the foundation of a scheme. From the judgment of Singleton, L.J., it appears that the specified class included, amongst many others, the settlor's wife. By Clause 4 of the deed, the trustees had been given discretionary powers, subject to certain conditions, to pay or apply the capital or income of the trust fund to or for the benefit of any one or more of those within the specified class, provided that the capital of the trust was not thereby reduced below £100. The £100 had been transferred to the trustees on July 25, 1951, the date of the settlement, and on August 13, 1951, the settlor had transferred to them a further sum of £25,000 which they had invested in Ordinary shares of H. A. Saunders, Ltd. The £100 had remained uninvested. In the year ending April 5, 1952, the gross income of the trust fund had amounted to £4,166 13s. 4d.; and, the issue in the case was whether, by virtue of Section 38 (2) of the Finance Act, 1938, this sum fell to be treated as Mr. Saunder's income. The opening words of that Section are:

> (2) If and so long as the terms of any settlement are such that—
> (*a*) any person has or may have power, whether immediately or in the future, and whether with or without the consent of any other person, to revoke or otherwise determine the settlement or any provision thereof . . .

For the appellant, it had been urged before the Special Commissioners that in the context the word "provisions" could mean only a written clause in the document. It had been accepted by the Crown that the deed contained no power "to revoke or otherwise determine the settlement"; but it was contended that by Clause 4 the trustees had power to determine a "provision," using this word in the second of the meanings given to it by Lord Simonds in *Berkeley* v. *Berkeley* (1946, A.C. 555; 25 A.T.C. 209), "the result ensuing from that which is provided by a written instrument or part of it." The Special Commissioners had held that the power to remove from the settlement the whole of the property save £100 was within the second meaning, and had dismissed the appeal. Wynn-Parry, J., had upheld their decision upon grounds set out in the previous note; but a unanimous Court of Appeal reversed his decision. The three judgments varied to some extent and can be only briefly discussed here.

Singleton, L.J., reviewing the problem by reference to speeches in the House of Lords in *Berkeley* v. *Berkeley* and *Wolfson* v. *C.I.R.* (1949, 65 T.L.R. 260; 28 A.T.C. 116; 31 T.C. 141), said he was satisfied that "provision" in the context meant, as he had held in *Lady Kenmare's* case, a clause in the document, and that the word ought to be given the same meaning throughout Section 38. The power of the trustees to pay out or withdraw a part of the capital, however great or little, was not a power to determine the settlement or any provision thereof. It was, he said, something envisaged by its terms. Morris, L.J., held that whilst there was power for the trustees to determine the settlement it could not be exercised during the lifetime of the settlor, and so neither he nor his wife could become beneficially entitled by the exercise of these unlimited powers. As regards the word "provision" he held that Clause 3 of the settlement operated only upon the trust fund less any part of the capital appointed under the provision of Clause 4, so that, even accepting the Crown's interpretation, it must be the income which under Clause 3 was to go to one or more members of the specified class, on whatever trust funds there were; he held that the Crown's submission further failed if the word "provision" denoted, as he held it to do, a clause or part of the settlement document.

Romer, L.J., in a closely-reasoned judgment, said that, as in the *Lady Kenmare* case, he found it unnecessary to come to any final conclusion on whether the word "provision" in Section 38 (3) meant "clause" or "result," because he held that the trustees had no power under Clause 4 to determine in the lifetime of the settlor any part of the written instrument or any benefit which the settlement conferred. He was unable to accept the Crown's contention that, because under Clause 4 the trustees subject to the settlor's consent during his lifetime could pay out the whole of the trust funds save £100 to the settlor's wife, the whole income of the trust funds fell to be treated as the settlor's income except that attributable to £100. In his opinion, the draftsman had succeeded in saving the settlor from Section 38 (2). So long as any part of the funds remained in the hands of the trustees and subject to the trusts declared by Clauses 3 and 5, it could not be said that the settlement or any provision thereof had been determined. Leave was given to appeal to the House of Lords. The decision means a big hole in the anti-avoidance net of the 1938 Act and, no doubt, the Revenue if it should fail in the House of Lords will take other action. It will be observed that the initial £100 was the catalyst which, producing no income itself, nevertheless played the most vital part in an ingenious scheme.

Income Tax

Profession—Medical practitioner—Hospital maintained by voluntary subscriptions—Medical staff of local doctors giving voluntary service—Scheme whereby endowment life policies taken out by hospital board and maintained for benefit of doctors—Sums assured payable at death or age 60—Consequent on National Health Service Act, 1946, policies assigned to doctor—Whether surrender values income of profession—Income Tax Act, 1918, Schedule D, Case II.

Temperley v. Smith (Ch. July 3, 1956, T.R. 275) dealt with a taxation problem arising out of the institution of a National Health Service by the Act of 1946. Amongst the changes, the old voluntary hospitals lost their independence and at the same time their eleemosynary character. For present purposes, the facts stated in the headline to this note are sufficient to show the problem, which the General Commissioners had settled in favour of the respondent. Were the surrender values of the policies assigned to the respondent a professional receipt, and therefore taxable, or were they a personal testimonial to him in recognition of his individual qualities so as to bring the case within the House of Lords decision in *Reed* v. *Seymour* (1927, A.C. 554; 1 A.T.C. 443; 11 T.C. 625)? Seeing that the scheme extended to all the members of the voluntary medical staff under forty-five years of age at the time of joining, it is not surprising that Vaisey, J., reversed the Commissioners' decision. There is, however, one observation which would seem to be called for. The inclusion in the profits of one year of the whole amount of a voluntary payment in respect of past services for many years may well amount to hardship; and it would seem desirable that the recipient in such a case should be given a right similar to that conferred by Section 24 of the Income Tax Act, 1944 (now contained in Section 471 of the Income Tax Act, 1952) whereby lump sum payments to authors may be spread over more than one year. Needless to say, any such right would have to be carefully circumscribed.

Income Tax and Surtax

Effect of income tax and surtax on damages and compensation.

The case of **Beach v. Reed Corrugated Cases Ltd.** [1956] 1 W.L.R. 807 was dealt with in Legal Notes in ACCOUNTANCY for August (page 329), and that of **West Suffolk County Council v. W. Rought Ltd.** [1956] 3 W.L.R. 589 on page 418 of our October issue.

Re Houghton Main Colliery Co. Ltd. [1956] 1 W.L.R. 1219 is reported in this issue, on page 463.

Surtax

Company under control of not more than five persons—Undistributed income—Special legislation affecting investment companies—Save where excepted, income to be deemed income of members—Colliery business nationalised—Interim and revenue payments in respect of compensation—Whether an investment company—Direction by Special Commissioners—Appeal against direction—Direction discharged on appeal—Rehearing before Board of Referees—Preliminary objection that under Section 14 (7) of the Finance Act, 1939, decision of Special Commissioners final—Objection upheld by Board, but case re-heard on merits and direction again discharged—Finance Act, 1915, Section 40 (2)—Income Tax Act, 1914, Section 14—Finance Act, 1922, Section 21, First Schedule—Finance Act, 1936, Section 20—Finance Act, 1937, Section 14—Finance Act, 1939, Section 14—Coal Industry Nationalisation Act, 1946, Sections 5, 19, 22—Finance Act, 1947, Section 43—Coal Industry (No. 2) Act, 1949, Section 1.

C.I.R. v. Parkhouse Collieries Ltd. (C.A. June 25, 1936, T.R. 223), was noted in our issue of November, 1955 (page 426). The company had carried on a colliery business which, under the Coal Industry Nationalisation Act, 1946, became vested in the National Coal Board on January 1, 1947. Thereafter, it had received in respect of the undetermined compensation payable interim payments under Section 19 of the 1946 Act and further revenue payments under Section 1 of the Coal Industry (No. 2) Act, 1949. After January 1, 1947, the company had been kept alive solely for the purpose of obtaining the compensation due to it and had been wound up in 1952. Of the payments above-mentioned a considerable proportion but not all had been distributed to the members of the

company and directions under Section 21 of the Finance Act, 1922, as amended by Section 14 of the Finance Act, 1939, had been given by the Special Commissioners that for the years 1947/48, 1948/49 and 1949/50 the income of the company was to be deemed the income of its members. By Section 14 (1) of the 1939 Act, the whole of the income of an investment company that was within the mischief of the Section, was to be so regarded irrespective of how much or how little had been distributed save as regards estate and trading income. Nevertheless, by Section 14 (7) the new rule was not to apply "in the case of any company if the Special Commissioners are satisfied that the company exists wholly or mainly for the purpose of carrying on a trade."

The company had appealed against the directions made by the Special Commissioners in their administrative capacity and had been discharged by them in their judicial capacity. The Revenue had thereupon invoked the provisions of the First Schedule to the 1922 Act and had required that the appeals should be re-heard by the Board of Referees. The main issue in the case was whether the company existed wholly or mainly for the purpose of carrying on a trade, but before the Board of Referees a preliminary point was taken which was to become all-important. It was contended that where the Special Commissioners, in the words of Section 14 (7), "are satisfied" their decision was final subject to the possible right of the Crown to require the Commissioners to state a case for the opinion of the High Court, a course which had not been followed. In other words, it was contended for the company that the procedure in appeals against directions under Section 22 of the Finance Act, 1922, laid down in the First Schedule to that Act was inapplicable in relation to Section 14 (7) of the 1939 Act. The Board of Referees had upheld this preliminary objection but had re-heard the case on its merits and, again, the directions in question had been discharged. In the High Court, Danckwerts, J., had held that the preliminary point failed and that the determination by the Special Commissioners was not final and conclusive. On the main point, he had held that the Board's decision could not stand in view of the decisions, subsequent to the re-hearing, in *Waterloo Main Colliery Co. Ltd.* v. *C.I.R.* [1954] 33 A.T.C. 359; 35 T.C. 454), and *C.I.R.* v. *The Butterley Co. Ltd.*, a case which had then been before the Court of Appeal and has since been before the House of Lords [1956] T.R. 103). In the Court of Appeal, the decision of Danckwerts, J., was unanimously affirmed upon both points; but leave was given to appeal to the House of Lords.

In view of the House of Lords' decision in the *Butterley* case, the main argument was upon the preliminary point and, here, although the same conclusion was reached, the views of their lordships as to the effect of the wording of Section 14 (7) varied considerably. Singleton, J., said he found the point very difficult in view of the clearness of the wording of Section 14 (7), and it was only after considering *The Port of London Authority* v. *C.I.R.* (1920 K.B. 612; 12 T.C. 122), a case influencing all of their lordships, where very similar language in Section 40 (2) of the Finance (No. 2) Act, 1915, had to be interpreted, that he reached his conclusion. There, it had been held in the Court of Appeal that the expression " to the satisfaction of the Commissioners of Inland Revenue" meant to the satisfaction of the assessing tribunal, and Singleton, L.J., thought it only right that the Court should take the same view. He said that either side had been given the right of re-hearing before the Board of Referees and "after considerable hesitation," held that the preliminary points failed.

Morris, L.J., came to the same conclusion but showed no such hesitancy. His closely reasoned judgment deserves fuller consideration; but his basic finding was that "Special Commissioners" in Section 14 (7) referred to them in their administrative capacity —that is, their assessing capacity. If "satisfied," no direction would be given and no appeal could arise. The giving of a direction implied that the Commissioners were not satisfied, and, on appeal, the procedure set out in the First Schedule to the Finance Act, 1922, could be invoked and its full course might result. Romer, L.J., said that there was much to be said for the view that the wording of Section 14 (7) meant exactly what it said, no more and no less. The Crown had put forward at the appeal before them, notice having been duly given, a new contention that as the Special Commissioners by making a direction showed themselves to be "not satisfied" it was not open to them on the hearing of the appeal to consider the question. This sophisticated argument was rejected as unsound by his Lordship for good reasons. Whilst, like Singleton, L.J., he considered the question a difficult one, he concluded that the expression "the Special Commissioners" in Section 14 (7) was "merely a shorthand description of the tribunals as a whole" before whom an assessment under Section 21 of the 1922 Act might come by virtue of the First Schedule to that Act. Like Singleton, L.J., he said he would have felt great difficulty in accepting the Crown's submissions but for the *Port of London Authority* case.

On the main issue in the case there was agreement and unanimity of view to the effect that the company was not carrying on a trade and was an "investment company" within the meaning of Section 20 of the Finance Act, 1936. It remains to be seen whether the case will be taken to the House of Lords; but it seems to the present writer that by Section 14 (1) a duty is imposed upon the Special Commissioners, of which they are relieved where they "are satisfied" that the condition in Section 14 (7) is fulfilled. In other words, both sub-Sections relate to the Special Commissioners in the same capacity, as held by Morris, L.J.

Surtax

Settlement—Settlor resident abroad—Settlement made abroad — Trustees' power to transfer capital to settlor—Whether settlement revocable—Whether settlement subject to United Kingdom law—Finance Act, 1922, Section 20 (1) (a)—Finance Act, 1938, Sections 38 (2), 41 (4), Schedule III.

C.I.R. v. Countess of Kenmare (C.A. July 2, 1956, T.R. 251) was the subject of an extended note in our issue of November, 1955, at page 427. The question in the case was whether an elaborate scheme intended to defeat the intentions of certain provisions of the Finance Act, 1938, had succeeded in its object. The Special Commissioners had decided in favour of the Countess, holding that as she was outside the jurisdiction of the United Kingdom during the material time she was not liable to surtax in respect of income of a foreign trust which did not arise to her and to which her only title was in the absolute discretion of the trustees. They had not found it necessary to decide whether the settlement was revocable; but Danckwerts, J., at the request of both parties had done so. He had reversed the decision of the Special Commissioners, and had also decided the second point in the Revenue's favour. In the Court of Appeal, each of the Lords Justices delivered a full and careful judgment in which the con-

clusions of Danckwerts, J., in favour of the Revenue were approved. Leave was given to appeal to the House of Lords, and, in the circumstances, only a brief note of the present position of the case would seem to be called for.

Surtax

Income—Life interest in residuary estate of testator—Power of trustees to pay additional but limited sum in each year on request by beneficiary—Whether additional sum income—Finance Act, 1927, Section 38.

Milne's Executors *v.* C.I.R. (Ch. July 3, 1956, T.R. 283) arose out of the will of Frederick John Milne, who had died on January 31, 1948. Testator had directed his trustees to hold his residuary estate, which he referred to as "the trust fund," upon trust to pay the income thereof to his wife during her life. In addition, under Clause 8 of the will the trustees were authorised to raise and pay to his wife out of the trust fund, if requested by her:

> in each year after my death . . . a sum which shall not exceed the sum of one thousand pounds, it being my intention that any sums so raised and paid . . . shall be available for the purpose of her maintenance and support . . .

The trustees exercised the discretion so given and made successive payments, which were made out of the capital of the trust fund but were claimed by the Revenue to be the income of the widow for surtax purposes. The Special Commissioners had decided in favour of the Revenue; and Vaisey, J., upheld their decision. There was apparently some argument on whether there had been an innocent breach of trust owing to absence of assent by the executors to the payments or some of them, because his Lordship remarked that he took the view, which he thought had commended itself to the Special Commissioners, that there must have been

> a notional assent by the executors . . . to the gift to themselves as trustees of sufficient sums . . . to justify their making successive payments of £1,000 under Clause 8.

His Lordship held the case to be indistinguishable from that of *Williamson* v. *Ough* (House of Lords, 1936, A.C. 384; 15 A.T.C. 38; 20 T.C. 194) and two other cases; and in so far as the facts of the case are stated in the judgment, it is difficult to see how he could have decided otherwise. Nevertheless, there is an apparent hardship where the life tenant's income is augmented out of the capital of the trust fund and, in this respect, there was a difference between the facts of *Williamson* v. *Ough* and those of the present case. There, the payments on account of income in so far as made by advances out of capital were, as far as practicable and as and when the trustees thought proper, to be recouped. Had the payments in that case been held not to be income, then if and to the extent to which the trustees recouped themselves out of income, liability to surtax by the recipients would have been avoided. Here, there was no such possibility, but the fundamental rule established in the line of cases, that the thing to be looked at is the personal position of the recipient regardless of the nature of the source, applied.

Estate Duty

Gift inter vivos—*Settlement by father in favour of daughter—On request of settlor trustee instructed by beneficiary to pay trust income into bank account in name of beneficiary—On request of settlor authority given by beneficiary for settlor to operate on bank account in the fullest possible manner—No operations on bank account by beneficiary—Substantially whole of amounts paid to credit of bank account withdrawn by and used by settlor for own purposes—Whether* bona fide *possessions and enjoyment of gift retained by beneficiary to the entire exclusion of the settlor—New South Wales Stamp Duties Act, 1920–1940, Sections 102 (2) (d).*

New South Wales Commissioner of Stamp Duties *v.* Permanent Trustee Company of New South Wales (Privy Council, May 16, 1956, T.R. 209) arose out of a provision in the estate duty law of New South Wales which, although more drastic in wording, corresponded with one contained in Section 2 (3) of the Finance Act, 1894. The issue was whether a trust estate created by a father in favour of his daughter by way of settlement fell to be included in the charge to estate duty on the settlor's estate upon his death in 1946. The settlement had been made in 1924, when the daughter was fourteen years old; and, by one of its provisions, on attaining thirty years of age in 1940 she had become absolutely entitled to the corpus of the trust fund. In the intervening years the trustee, the appellant company, was to make payments out of the trust income for the benefit of the daughter as it thought proper and was to accumulate the residue. Payments had been made to the settlor of £1,000 per annum whilst he was maintaining and educating her and, at her request, similar payments had been made in each of the years 1933 to 1937. On July 1, 1938, the beneficiary had married: and at the end of that year the settlor had initiated the scheme of evasion out of which the case arose. A general account of the scheme is given in the heading to this note. The daughter seems to have followed her father's instructions carefully, with the result that the latter up to April, 1943, had drawn out practically the whole of the moneys which had been paid into the bank account standing in the daughter's name. On the settlor's death, the value of the trust fund amounted to £38,162, and the Commissioner had included this sum in computing the dutiable estate of the settlor. For the trustee it was contended that when the settlor exercised his powers of drawing on his daughter's banking account he was not using the trust income but was borrowing from her money which had lost its identity as trust income. She chose, it was said, to lend it to the settlor but might equally well have lent it to a stranger.

A majority of the High Court of Australia had reversed the decisions of the Supreme Court of New South Wales in favour of the appellant Commissioner; but their lordships preferred the views of the two minority judges; and Viscount Simonds, giving their decision, said that for the purpose of the Section it could not be said that the donee had retained exclusive possession and enjoyment of the subject matter of the gift. The transaction had to be viewed as a whole; and an integral part of it was that the testator before the bank account was opened was authorised to draw on it, and he had used his daughter's money, paying no interest for it, and had so reduced her enjoyment of what was nothing else but her trust income. Their Lordships, said Viscount Simonds, held that the case fell into line with *O'Connor* v. *South Australia Commissioner of Succession Duties* (1932, 47 C.L.R. 601).

Had their Lordships approved the decision of the High Court of Australia, then, bearing in mind the circumstances of the case, an effective method of tax evasion would have been established. The position was not one where a daughter of full age had renounced benefits in favour of her father but one of a carefully planned scheme which, none the less, was held to have failed of its main object.

The Month in the City

Mixed Influences in the Markets

In the past month the Suez talks have formed the background for market decisions, but the investor has also had to do his best to digest the outcome of the usual series of annual meetings and a number of special developments. The meetings of the Bretton Woods twins produced little that can have caused any surprise and the report of the E.P.U., like that of O.E.E.C. which followed, did little more than confirm the fairly general opinion of the reasons for the malaise from which Britain continues to suffer. The Mansion House dinner to the bankers showed Mr. Macmillan in, perhaps, a rather milder mood. If he still sees no need for a tougher monetary policy, he at least refrained from mentioning more direct controls. He was able to give two pieces of news: the balance of payments for the first half of the year was as much as £144 million on the right side—a substantially larger figure than he had previously indicated—and the effect of Suez has so far not affected the broad structure of the national revenue and expenditure. The improvement in the oversea balance is welcome but it is to be noted that a disappointingly small proportion is attributable to invisibles. It does not mean that we are within sight of a £300 million surplus for the whole year, and if we were it is doubtful whether with existing prices that would be a large enough surplus. If there is to be no intensification of the monetary and financial stringency, it must at least be maintained. It had already become evident that the earlier pressure upon bank advances was being renewed. Many people will consider that Mr. Macmillan is still rather optimistic and will not fail to observe that Mr. Cobbold, Governor of the Bank of England, pointed out that there was no commitment to leave Bank Rate untouched. He may have intended no more than a formal re-statement of the policy of a "flexible" Bank Rate, and his only reference to whether the next move would be up or down was a confession that we shall all feel more comfortable when circumstances justify a somewhat lower rate. While the battle for ending inflation is joined, it is certainly not yet won and the coming months are of crucial importance. A somewhat harsh reminder was provided by the fact that the deficit on the gold reserve, before taking credit for the capital receipt from Trinidad Oil, was $125 million.

The New Issue Market Revives

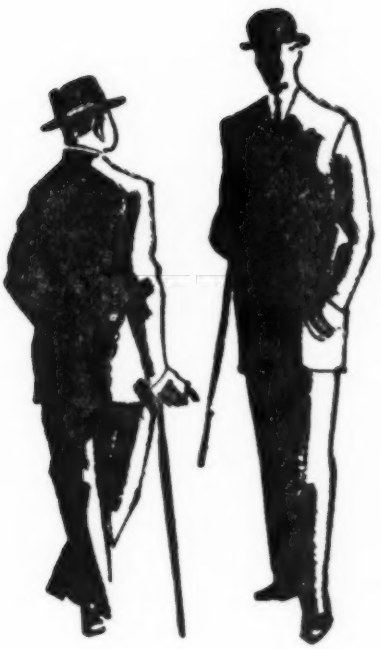
Meanwhile, the *New Zealand* loan had been followed by an offer by the *East African Commission* 5½ per cent. stock at 98½. This loan was the first in its class to carry this coupon rate. It met with a fair reception, applications for over £100,000 being cut to 94 per cent., but went to a discount in the market. It was followed by the *General Electric* offer of a large block of Ordinary shares as rights at 40s. and £6 million of 6 per cent. unsecured loan stock at par, to raise altogether over £14 million in cash. While a larger number of other industrial offers were being talked of, it leaked out that the turnstile was about to be closed for this class and there was much speculation about what was in the wind. It was known that a small Australian conversion must be dealt with soon but this seemed insufficient to account for the preparations. Before the middle of the month the reason for "grooming" the market was revealed when it was announced that the *London County Council* was to raise £15 million 5½ per cent. stock 1977–81 at 99½. With the market as thin as it now is, so large a sum constitutes a major operation. The effect on market quotations of all these changes was not very remarkable. Fixed interest stocks at first continued to fall, then made a slight recovery, and in the absence of any new offer and very little selling pressure, the Funds actually recovered the loss of the previous month. Equities, however, and especially industrial equities, after first falling, recovered quite sharply. The results are reflected in the following changes between September 20 and October 19 in the indices compiled by the *Financial Times*: Government stocks up from 83.39 to 84.74; fixed interest, up from 92.98 to 93.09; industrial Ordinary down from 181.0 to 179.7; and gold mines from 79.4 to 75.5.

Profits and Prospects

Apart from the expectation of a further substantial flow of new issues of equity capital, Ordinary shares have been affected by some disappointing dividend announcements and equally unfavourable interim reports, among which that of *Dunlop* was perhaps the most important. Indeed, there was some surprise when the latest quarterly figures of *The Economist*—now presented on a new and improved basis—showed that recorded profits were still showing an advance over the figures of a year previously, if only by some 4 per cent. over the period. However, the statistics refer to financial years whose mid-point is probably now a year old, and the more up-to-date impression given by the interim reports is a better guide to the current trend. A further development that must have caused some doubt among those who still believe that the future of British industry is set fair was Mr. Macmillan's announcement of the British decision to look into the possibility of joining with most of Western Europe in a free trade area which would not interfere either with the operation of Imperial preference or the protection of British agriculture.

Lloyds Bank Capital

The process of simplifying the capital structure of the clearing and Scottish banks has been carried a step further by the decision of *Lloyds Bank* to get rid of the two decker capital and the reserve liability. The liability could be called only in the event of need and in liquidation proceedings. It could not be reduced by free scrip issues and an outright conversion was deemed necessary, while the marketability of the 5 per cent. maximum dividend on the "B" shares would be improved by their consolidation with the much larger "A" issue, on which 12 per cent. was being paid. The first step was to write down the "B" to five-twelfths—that is, 8s. 4d. for every 20s. The reserve liability on the "A" shares was cancelled and both "A" and "B" shares were consolidated into new shares of £1 each fully paid. In future both classes will receive the same dividend and the Board hope to raise the final dividend by one point. This will leave the actual distribution on the equity still less than it was before the cuts of the 'thirties, so that the Chancellor's request for restraint is hardly being neglected. The sum provided by writing down the "B" capital will be carried to reserve and a further sum is to be taken from contingencies, so that the published figure will be increased by £2 million to £17 million, against an issued capital reduced to £18,565,000. There should be no difficulty in obtaining the consent of the shareholders and the sanction of the Court. The cost of the change in status of the "B" shares and the increase in dividend will be just over £100,000 net a year.



How *does* the smaller firm raise new capital?

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Points From Published Accounts

It's All Rather Confusing

ACCOUNTING TERMINOLOGY is a recurring point of contention in these notes. The plain fact is that there is still room for a great deal of improvement. Many of the discrepancies are of a comparatively small nature, but they can still mar an otherwise good set of accounts. This applies to the accounts of *John Shaw and Sons, Wolverhampton*, where the item "general reserve for bad debts" appears in the profit and loss account. Readers are thus left with a not very clear impression of what this is really meant to be—and matters are not improved by the further item "transfer to general reserve" appearing in the appropriation section of the account. Surely it would give a clearer picture to describe the first item simply as a "provision for bad debts." This at least has the merit of stressing the importance of the item and denoting that it is not money that the directors are merely putting away at their own discretion against a rainy day. If, on the other hand, this is what in fact is being done, and this item is not meant to be a specific provision against bad debts, then why, one can argue, is it not in the appropriation section of the account? Or, alternatively, why make it at all, when it could be incorporated just as effectively in the transfer to general reserve?

The point is not merely academic, for in the balance sheet there is a heading "reserve for special purposes." Yet both the dividend equalisation and bad debts reserves are included under the heading "revenue reserves."

What Good Printing Can Do

As might be expected from a printing undertaking, the typography employed in the accounts of *Hazell Sun* is striking. It is a pity that the profit and loss account is marred by not showing explicitly the true gross surplus, leaving shareholders to add for themselves a number of items, such as depreciation, directors' remuneration and audit fees, to the trading profit. But one can overlook this point because of the excellent presentation. Here, in fact, we have an excellent example of how minor defects in presentation can be pushed into the background by the generally pleasing effect of the layout and typefaces used! Once again, the effect of neatness in the balance sheet has been maintained by relegating all detailed figures to special schedules appended to the actual accounts.

How to Classify Trade Investments?

It would be interesting to know what justification there is for including trade investments in current assets in the accounts of *Tennant Brothers*. Admittedly trade investments are not an easy item to classify, and some companies go to the other extreme of including them as part of the fixed assets. In the final event it must depend upon the individual circumstances, but there is much to be said for a uniform presentation in all sets of accounts. If trade investments are to be regarded as merely a temporary home for spare cash until such time as it is required in the development of a business, then there is no point in giving it a separate designation. On the other hand, no matter how permanent these investments may be, it is only very rarely that they can be termed to rank as fixed assets. In short, it is desirable that they should always stand under a separate heading of their own, which at least has the virtue of letting the reader of the accounts interpret the true position for himself.

An Index to the Notes

An extensive note section forms the feature of the *Chloride Electrical Storage* accounts. The accounts themselves, as a result, have a remarkably neat presentation. A separate column is employed to indicate where there is a note to be found, and many of the items in the balance sheet are so qualified. This appears to be an admirable idea.

Should Comparative Figures be Adjusted?

An important accounting principle appears from the accounts of *Bowden (Holdings)*. In the profit and loss account for the year ended March 31, 1955, a sum of £280, being the profit on the sale of fixed assets and investments, was shown as a separate addition to the trading profit, as was £13 derived from the income from investments. The latest accounts provide no immediate indication of these items in the comparative figures. Instead, shareholders are left to interpret a rise in the trading profit from £179,289 in the original accounts for 1955 to £179,302 in the comparative figure this year, and a drop in the depreciation charge from £13,658 in the 1955 accounts to £13,378 in the comparative figure this year. The answer is that income from investments now forms part of the actual trading profit, while the profit on sales of fixed assets and investments has been deducted from the depreciation charge. The principle at issue is—how far are year-to-year adjustments of this nature justified? So far as Bowden (Holdings) is concerned it is only a matter of principle, for the sums are negligible. But would the same practice have been adopted had they been much larger? As it is the company raises a doubt in the reader's mind about how the latest figures have actually been made up.

In the Red—But Only for Easier Reading

The accounts of *Donaldson Textiles* are very neat, and an interesting feature is the extension of the red ink used for the comparative figures for the year ended March 31, 1955, to cover the actual wording of items in question where there is no corresponding entry for the latest year. This makes it very easy to see where items have dropped out altogether, and it also livens up the presentation of the accounts much more than would seem credible.

Emphasising the Goodwill Item

It is interesting to note that goodwill takes precedence over fixed assets in the balance sheet of the *British Match Corporation*. More usually this item appears after fixed assets. In this instance, however, its obvious value to a concern like British Match is heightened by adopting this method of presentation. Obviously to all rules there are permissible exceptions, and here is one of them. An unusual feature of the accounts is the deduction of total current liabilities from current assets on the right-hand side of the balance sheet, while the same item is shown in detail on the left-hand side with the total underlined with a double rule. The method certainly obviates either re-arranging the balance sheet presentation or unduly squashing the figures on the right-hand side.

Why this Nonconformity?

A comparatively minor, but interesting, point in the accounts of the *General Electric Company* is the practice of placing current assets and current liabilities at the head of the balance sheet. This is the reverse of the order generally found in British accounts, and it makes disconcerting reading at first sight. Why the business should have chosen to adopt this style it is difficult to say: there is no apparent advantage to be gained from departing from orthodoxy in this manner. Some other companies do it, but nearly always for the convenience of being able to show net asset totals rather than the more usual total assets.

The Need for Showing Progress Payments

The valuation of stock and work-in-progress is more often than not shown in company balance sheets at a figure net of any progress payments. When this practice is adopted it is possible for there to be a contraction in the balance sheet entry for this item when the gross figure shows an increase, and vice versa. There is thus a real danger that anyone looking at a balance sheet in which this practice is followed may seriously misinterpret the position. The danger is greatest in industries making heavy capital goods; their inventories are frequently the most important item in the balance sheet. Such a business is *James Howden*, where stock in hand and work - in - progress account for £1,890,788 of the assets total of £4,844,402. A year earlier the corresponding figures were £1,566,728 and £4,324,956. In this instance, however, gross figures and progress payments are also shown, and from these it may be seen that the amount of business on hand, together with stocks, has actually risen from £1,769,299 to £2,028,112. Just as important in these days of increasing credit stringency is the knowledge that progress payments have contracted from £202,571 to £137,324. It seems essential that where such a position exists, the figures should be shown in full, for only in this manner can important trends be discerned and a true picture of the level of activity being maintained in a business obtained.

Accounts for the Layman

Atkinson Lorries deserves full credit for a very readable set of accounts, sensibly illustrated with pictures of the products and a very full statement from the chairman giving in graph form some useful information on the salient trading features. Not the least significant contribution to the clarity of presentation is the straightforward division of reserves into capital reserves and a revenue reserve. In other words, there are no specific transfers to reserves, which festoon the majority of balance sheets produced in this country. After the deduction of dividends, the surplus in the profit and loss account is carried straight into the balance sheet as "undistributed profit of the year," the only division being as between subsidiary companies and the holding company. The presentation is far more effective than it would be if there were (as with some companies) a somewhat meaningless split-up of this surplus into separate reserves, all of which have to be added together, anyway, to arrive at the true backing for the issued capital.

The actual layout of the balance sheet of this company also deserves mention, for it follows the form of showing total net assets and how these are represented by the share capital and reserves, thus avoiding the need to describe one side as assets and the other as liabilities. It has to be borne in mind that most people to whom company accounts are of interest are not versed in the intricacies of book-keeping. And so it is the duty of the compilers to show the financial position as clearly as they can and in terms, so far as is possible, the average person can understand. The form adopted by Atkinson Lorries is a model in this respect—even to describing the difference between current assets and current liabilities as "working capital."

Effective Accounts

The accounts of *B. Elliott and Co.* also happily dispense with specific transfers to reserves, but here the surplus profit is termed "profit retained in group": as with Atkinson Lorries it goes to a single revenue reserve in the balance sheet, and the result is a neat and clear presentation. As with Atkinson Lorries, net asset totals are shown, but an interesting contrast in detail emerges. Whereas Atkinson uses a vertical presentation all on one sheet, Elliott has stuck to a two-page presentation. Current assets and current liabilities are ruled off, and the difference between them brought to account. The only note to mar this balance sheet is the description of this difference as "current surplus." Working capital is a far better term.

These details apart, a word of praise must also be entered for the lively presentation of Elliott's accounts, from the glossy cover to the two pages of graphs summarising the group's progress. Colour is used to full advantage in this presentation, and it is clear that a great deal of thought has gone into the layout. The final effect is well worth the effort.

Novel Treatment of Reserves

An alternative to doing away with specific reserves altogether is adopted by *Great Universal Stores*. In this balance sheet there is a profit and loss balance and an omnibus item for revenue reserves. Anyone wishing to pursue the matter further can refer to the statement of movements of revenue reserves appended to the accounts: a similar system is adopted with the capital reserves.

Informativeness

Undoubtedly one of the most informative sets of accounts to be published is that of the *Beecham* Group. Many excellent features may be found in Lord Dovercourt's statement, including a very full sub-division of the group's world sales in a series of tables. A summary of the information is given in the profit and loss account, which is one of the very few to show a division in the trading profit between home and overseas. Beecham is yet another business that has adopted the practice of showing revenue reserves as a single item, divided between home companies and oversea subsidiaries, though the balance sheet is otherwise laid out in an orthodox presentation with current liabilities on the left-hand side. An interesting departure in detail, however, is the inclusion of intangible items, fixed assets and trade investments under the heading of "capital assets." The assets are split nicely into two, and any doubt about the standing of goodwill and trade investments is eliminated.

Difficult Reading

The addition of a notes section would greatly improve the accounts of *Triplex Safety Glass*, which at present suffer from a surfeit of fussiness. For all the obvious attempt to brighten the presentation the accounts proper remain uninspiring documents, solely because the reader is presented with a solid wedge of type that makes easy reading impossible. Part of the trouble also stems from superimposing the group and parent balance sheets. It is a pity that the honest attempt made to "put Triplex over" to shareholders and other readers of the accounts has been spoilt in this way. Triplex is one of the pioneers of the "popular" approach to company finance, and thus one finds entries such

as "amounts due to suppliers and others" in place of the more usual "creditors." There is undoubtedly scope for the development of popularised versions of company accounts but, on the whole, it is desirable to keep them quite separate from the formal presentation, which is, it seems to us, best couched in the generally accepted terms.

"Two-way" Accounts

In a similar category to the Triplex accounts are those of *Pye*, though in this instance the presentation of the accounts proper is strictly formal, the general articles and trading comment which are an outstanding feature of these accounts being kept quite separate from the report and balance sheets. Pye has long recognised that the annual accounts provide a medium for discussing topics of a much wider scope than the finance of the year. As a result they command a greater field of interest than they might if they followed more orthodox lines. Simplicity has been aimed at in both the profit and loss account and the two balance sheets—to great effect, thanks to a careful choice of typefaces and the employment of an art paper. A commendable practice is to split the profit and loss account into two halves, a "statement of profit" appearing on the left-hand page, and "appropriation of profit" on the right-hand page. A similar layout is adopted for the balance sheets, "total capital employed in the group" being on the left-hand page, and "total net assets employed in the group" being on the right-hand.

Tax—Expense or Appropriation?

The minute a profit is earned it becomes subject to an inescapable liability to taxation. Surely, therefore, it is illogical to include this item in the appropriation section of the profit and loss account as *Arnold M. Gee* has done. Taxation is every bit as much a necessary expense of running a business as depreciation or the remuneration of directors, and it is hardly fair to shareholders not to make the fact abundantly clear.

Publications

Hanson's Death Duties, 10th Edition. By Henry E. Smith, LL.B. Pp. lxxvi + 1214. (*Sweet & Maxwell Ltd.*: £6 6s. 0d. net.)

THE TENTH AND latest edition of *Hanson* is very different from any of its predecessors and the question which any reviewer must many times ask himself is whether the editor, Mr. Henry E. Smith, has been wise in making so many changes in the arrangement of this very well-established textbook. Mr. Smith was, with Mr. Jackson Wolfe, also editor of the ninth edition. The preface to that edition stated that "The original form of text and commentary has been preserved as being unique amongst current textbooks upon the death duties." That claim was, in all respects, entirely true. It is not repeated—and could not be repeated—in the preface to the present edition.

In the field of death duties *Hanson* has always had the reputation of being the great teaching work. Its especial function was always considered to lie in its word-for-word explanation of the relevant statutes. Estate duty, as Mr. Smith rightly observes in his preface, is not a simple subject. It is quite impossible to understand unless one knows the statutes, and for this understanding *Hanson* remains nothing less than essential. Unfortunately, in his desire to make the work a satisfactory reference book, Mr. Smith has, it must be feared, somewhat detracted from the traditional function of the book.

The following example will perhaps illustrate the point which is being made. Take the opening words of Section 2 (1) of the Finance Act, 1894:

> Property passing on the death of the deceased shall be deemed to include the property following, that is to say:
> (*a*) property of which the deceased was at the time of his death competent to dispose.

In the ninth edition the number "one" is placed after the word "death"; "two" after the word "deceased"; "three" after the word "include," and "four" after the word "dispose." Those numbers, respectively, reappear in the commentary appropriate to notes respectively commencing with the words "property passing on the death"; "the deceased"; "be deemed to include"; "competent to dispose." It is easy to appreciate how extraordinarily helpful this treatment can be, especially when it is applied to the later complicated statutes. In his edition, Mr. Smith has left out the numbers completely. His paragraph headings, moreover, no longer necessarily contain actual words used in the statute. The result is that the "tie up" is not so clear. He has, for example, in place of the note headings quoted from the ninth edition, given note headings respectively reading "Property passing and property deemed to pass" and " 'competent to dispose' defined."

On the other hand, the new edition has many merits. *Hanson* was not, previously, a good reference book. It is now a good one and Mr. Smith has succeeded extraordinarily well in this object. In fact if in his next edition he would restore the numbering method, and employ both the new and the old note headings (the old being subsidiary to the new) the book would be a remarkable one. An example of how good the book now is as a reference book is to be found in the treatment of discretionary ceasing annuities. Incidentally, one would have liked to see a reference to the treatment of continuing discretionary annuities.

It is also observed that in the table of cases to the present edition, the places in which leading cases are chiefly dealt with are not, as formerly, set out in heavy type. It is difficult to understand why this method has been discontinued. *Hanson*, with the possible sole exception of the now obsolescent *Webster-Brown*, is the best book in its field for clear and satisfactory case treatment. In the ninth edition the case of *Cowley* v. *C.I.R.* is referred to on eight separate pages, and, of these, chiefly on one page. It is referred to in nineteen separate paragraphs in the tenth edition. There is, however, nothing in the table of cases to show where it is chiefly set out. This method is not of assistance to the reader who wants to know what *Hanson* has to say about a particular case, and it appears to serve no purpose other than that of conforming with usual practice.

The first part of the present edition (which is not the commentary part) is, in fact, a medium sized textbook in its own right. As stated in the preface, the object of this part, is to provide "a short

answer to a routine question of law or practice." This part is cross-referenced with the major part of the work. It is an excellent idea. G.C.M.

Statistics and Their Application to Commerce. 11th edition by A. R. Ilersic, M.SC.(ECON.), B.COM., F.I.S. Pp. xii+401. (*H.F.L. (Publishers) Ltd.:* 25s. net.)

ALL WHO TAKE an intelligent interest in current affairs meet statistics at every turn. Mass - production, mass - sales, mass-opinion, mass-phenomena of every kind bring with them the need for statistical methods. In business, the use of statistics is becoming increasingly important.

To some people statistics implies endless dreary pages of figures; to others it connotes a terrifying collection of mathematical formulæ. Though intended primarily for the student, this book will make profitable reading for all engaged in commerce and industry and also for the "man-in-the-street," upon whom statistics increasingly impinge. It demonstrates that statistics is not a mystique but a technique whose elements can be mastered and usefully applied by anyone capable of clear thinking. The author has sought to give his readers (of whom there ought to be many) the "feel" of the subject—and has succeeded admirably in his aim.

The basic essentials of collection, tabulation and graphical presentation are well set out, and the reader is then introduced to the methods of summarising groups of figures by means of the various types of average and the measures of spread and symmetry. A non-mathematical explanation of the meaning of "statistical significance" is provided by the chapters on the normal curve and significance tests—though I would favour the more liberal use of diagrams to illustrate the argument. Those who are perplexed by the rationale of sampling methods, and are perhaps sceptical about the validity of the results obtained by them, should certainly read the chapters on sampling methods and sample surveys; they contain an excellent exposition of the methods used for obtaining reliable samples and of the factors to be borne in mind in interpreting the results obtained from them. The statistician, as this book shows, is keenly aware of, and at considerable pains to express, the reservations attaching to sampling results. Unfortunately, such reservations do not make good banner headlines.

The chapters on index numbers and statistical sources are essential reading for all who wish to appreciate the methods devised for measuring the behaviour of the national economy, though a more detailed discussion of the interpretation of Paasche and Laspeyre indices could usefully be introduced.

My suggestions, which are, in the main, only personal predelictions, must not be taken as in any way an adverse criticism of what is a thoroughly readable, comprehensible and recommendable book. Mr. Ilersic has done an excellent job—and a bouquet to the publishers for keeping the price at the 1952 level! D.G.

Integrated Accounting. By J. E. Smith, A.C.W.A., and J. C. W. Day, B.COM., F.A.C.C.A. Pp. 40. (*Edward Arnold (Publishers), Ltd., 41 Maddox Street, London, W.1:* 3s. 6d. net.)

THE PURPOSE OF this book, according to the preface, is to set out briefly the principles of integrated accounting, and to show students how examination questions on the subject may be answered. Intended for examinees, and written by two professional lecturers, it serves a useful purpose in giving a clear and detailed expansion of a subject with which the majority of cost accounting textbooks deal only briefly as just another of the methods of reconciling the cost and financial accounts—whereas, as the authors point out, it is a method of accounting in which these two sets of accounts are supplied by the same set of books.

The first three chapters set out the reasons for integrated accounting; the changes that are necessary in the financial accounting system before this system is adopted; a specimen routine of the work in a four-week costing period; and the adjustment of overheads when recovered on predetermined rates. The remaining two chapters contain a fully-worked example and three examination questions, with worked answers, taken from recent final papers of the Institute of Cost and Works Accountants.

The worked example, illustrating the basic accounting procedure to be adopted, and the answers to the examination questions, are well laid out, with explanatory notes. Standard costs are mentioned in the text and in one of the examination questions, but such an important subject could perhaps have been expanded with an example showing additional variances and the accounting entries necessary.

This small book should be of great help to final students in a subject that is becoming increasingly important, both in practice and in the examination halls. J.D.W.

Books Received

The Dairy Herd Work Book. (*Farm Economics Branch, School of Agriculture, University of Cambridge:* 3s. 6d. post free.) This publication was the subject of a Professional Note on page 390 of the October issue of ACCOUNTANCY. We regret that the price was incorrectly given.

Borough of Luton—Financial Survey, 1955–56. Pp. 35. (*Borough Treasurer, Town Hall, Luton, Beds.*)

Lancashire County Finance, 1955–56. Pp. 31. (*County Publicity Officer, County Hall, Preston.*)

Aspetti Economico-Tecnici Della Produttività d'Impresa. By Professor Salvatore Umberto Pagnano. Pp. xiv+118. (*Universita di Catania, Facolta di Economia e Commercio, Catania, Italy:* L. 1,850.)

Return of Rates and Rates Levied per Head of Population (England and Wales) 1956–57. Pp. 142. (*Institute of Municipal Treasurers & Accountants, 1 Buckingham Place, London, S.W.1:* 7s. 6d. post free.)

Work and Study Aids Farmers: Case Studies Show How. Issued by the British Productivity Council. Pp. 8. (*British Productivity Council, 21 Tothill Street, London, S.W.1:* 6d.)

Overseas Newspapers and Periodicals. Edited by H. R. Vaughan. Pp. 170. Fifth Edition. (*Publishing and Distributing Co. Ltd., 177 Regent Street, London, W.1.* Cloth cover, 10s. Card cover, 7s. 6d. *The publishers are prepared to supply a limited number free to those readers who can use it especially for increasing their export trade and who will pay postal charges.*)

Directories Who's Who, Press Guides and Year Books. Edited by H. R. Vaughan. Pp. 16. (*Publishing and Distributing Co. Ltd.:* 5s. net.)

Trades Register of London, 1956. Pp. 735. The register contains more than 55,000 classified names and addresses in the London postal district. (*The Kemp's Group of Publishing Companies, 299 Grays Inn Road, London, W.C.1.* Great Britain, £3 3s. Overseas, £3 13s. post free.)

City of Leeds—Abstract of Accounts, 1954–1955: Estimates, 1956–1957. (*The City Treasurer, Civic Hall, Leeds, 1.*)

Legal Notes

Company Law—

Tax Element in Compensation

The case of *British Transport Commission* v. *Gourley* [1956] A.C. 185, in which the House of Lords held that the tax element must be taken into account in assessing damages for tort, continues to have repercussions. In **Re Houghton Main Colliery Co. Ltd.** [1956] 1 W.L.R. 1219, a successful colliery company went into members' voluntary liquidation in June, 1953. The company was then under an obligation to pay pensions to B. and F., and owing to the liquidation it was necessary to capitalise the value of those pensions so that a lump sum could be paid to the pensioners in satisfaction of their claims.

Wynn-Parry, J., held that deductions must be made from the gross sums to allow for the income tax and surtax that B. and F. would have had to pay on their respective pensions, had the pensions continued to be paid. His Lordship was then faced with the difficult question how this notional liability to tax was to be calculated. He decided to give the parties guidance on the principles to be followed and then to afford them the opportunity of agreeing the figures if they could. He pointed out, by reference to judgments in *Gourley's* case, that the estimate should be made on broad lines and that the rate of tax to be taken should be the effective rate of tax that would have been applicable to the sums in question if they had been paid. This rate would naturally depend on the combination of a number of factors that would vary with each case—allowances, reduced rates, surtax rates, other income of the claimant or his wife, changes or reliefs. His Lordship further expressed the view that the notional amounts that were to be added to the actual incomes of B. and F. should not be regarded as representing either the top slice or the bottom slice of those incomes. (It is not quite clear what his Lordship meant by this observation; it seems to suggest that if x is the actual income, y the notional income and z the tax that would be payable on $x+y$, the notional amount to be deducted from y would be $\frac{z}{x+y} \times y$.)

Two further points were made: (*a*) the rate of tax to be taken into account should be the rate current in the fiscal year in which the liquidation occurred; (*b*) it should be assumed that payment would be made to B. and F. not in one year but over the number of years that the actuary took into his calculations in arriving at the respective capital sums.

Executorship Law and Trusts—

Hotchpot

By Sections 47 and 49 of the Administration of Estates Act, 1925, if there is a partial intestacy, any children or issue of the testator who are beneficiaries under the intestacy must bring into hotchpot the value of any benefits that they have received under the will. That is, in calculating what share each will take under the intestacy account will be taken of the value of the benefits each has received. In **Re Morton deceased** [1956] 3 W.L.R. 663, there was a partial intestacy and those of the testator's issue who were entitled to share on the intestacy had received life and other lesser interests in certain property under the will. The question arose how the value of the life and lesser interests was to be calculated. Danckwerts, J., held that this must be the actuarial value of the interest actually taken and not the capital value of the property.

Executorship Law and Trusts—

Administration of Insolvent Estate

When an estate is insolvent, a common method of bringing the matter before the Court is for the executor to find a creditor who is willing to bring an action on behalf of himself and all other creditors. In **Re Bradley deceased** [1956] 3 W.L.R. 610, the executrix and sole beneficiary of the deceased, whose estate was believed to be insolvent, could not find any creditor who was willing either to start or to defend proceedings. She then took out a procedure summons against a creditor who was unwilling to be a party, asking for administration of the estate. Upjohn, J., held that this procedure was incorrect and that the executrix ought to bring a petition under Section 130 (9) of the Bankruptcy Act, 1914.

Insolvency—

Set-off of Mutual Debts

In **Re a Debtor (No. 66 of 1955)** [1956] 1 W.L.R. 1226, the Court of Appeal affirmed the decision of the Divisional Court, which was noted in ACCOUNTANCY for June, 1956 (page 239).

Notices

(*See also page 467.*)

The **National Farmers' Union** announces that the Credit Service Unit is now to be administered by the Economic and Taxation Department of the Union at Agriculture House, Knightsbridge, London, S.W.1. The unit was established in 1954 by the N.F.U. Development Co. It has helped individual members and co-operative societies in obtaining credit from existing sources, and has advised them on their credit problems. It has also provided the Union with data for its prolonged negotiations with the Government for the establishment of a new source of credit for capital investment in agriculture.

Random Access Memory is the name of a new product announced by IBM United Kingdom Ltd. and to be manufactured at the company's new factory in Greenock. RAM 650 can be added as an additional unit to the existing 650 machine, while RAMAC is a new machine containing input and output devices and processing units as well as the disc "memory" of millions of digits. Transactions are dealt with continuously, without waiting until a group is accumulated, and any item of the information stored is available in an instant.

The **Centurion** policy has been devised by the Century Insurance Co. Ltd. to meet the needs of those who are not financially embarrassed by accident or illness until disablement has become prolonged. The policy provides no benefit for the first eight weeks of disablement—this greatly reduces its cost—but for each £5 of annual premium £6 per week is paid from the ninth week up to the end of four years from the start of the incapacity. There are also lump-sum benefits for accidents.

The first issue has appeared of the **G.E.C. Export Guide.** By an ingenious arrangement of symbols the export prospects of thirty-six groups of manufactured products in thirty-four major markets overseas are displayed in four pages. The trend of imports, in total and from the United Kingdom in particular, of each of the classes of goods by each of the countries is indicated, and similar information is given about imports from the other main suppliers. The incidence of import restrictions is also shown. General indicators of economic conditions in each country are provided. On other pages of the eight-page guide notes tell the exporter more about markets abroad—an especially valuable feature is that for each class of manufactured goods the three main markets are distinguished and salient facts about them succinctly given, while salient information is added about smaller markets. This publication, which is to be quarterly—later issues will show how prospects have varied since the last—can be obtained free of charge from the General Electric Company Ltd., Magnet House, Kingsway, London, W.C.2.

The Student's Columns

I—BRANCH ACCOUNTS

THE METHODS OF accounting for transactions between main concerns and their branches are not uniform—they should be made the most practical and most efficient methods in the particular circumstances. A branch may be a small retail shop, selling only goods supplied by its parent concern. Or, at the other extreme, it may be a large and virtually autonomous business making all its own purchases from outside suppliers and distributing on a wide scale. The principal requirement of the accounting system must be to exercise the most complete control—to ensure that all goods and cash passing through the branches are fully accounted for and that any discrepancies arising are promptly and effectively investigated, so that remedial action may be taken. Thus factors determining the accounting procedures are: the location of the branches; their number; the degree of control, other than an accounting control, already exercised; the nature of the merchandise; the staff employed.

A branch may perform its own accounting functions or, alternatively, its accounts may be kept by the parent concern.

Let us take first a branch engaged in the retail trade that does not do its own accounting. The branch manager will make regular returns to his head office and these returns contain the data for the preparation of the accounting records. The returns will be important documents. They should be despatched to the head office promptly every week. The form and scope of a return will vary according to circumstances but the minimum information it should give will be: daily sales, distinguishing between cash and credit sales; discounts allowed, if any; petty cash expenditure; the balance of cash lodged at the local branch of the bank of the parent concern (at stipulated times every day); goods supplied on credit and cash paid by the purchasers. Accompanying the return will be paying-in slips, wages sheets and vouchers for cash payments. At head office the return will be checked with the slips, sheets and vouchers, each of which, to facilitate checking, will bear the distinguishing number allotted to the branch. The particulars will then be entered into books with columns for cash received for cash sales; cash received for credit sales; wages; expenses; purchases; amounts banked; and so on. This book will be balanced weekly, and from it totals will be posted direct to the ledger accounts of the branch in the books of the head office. More is said of these ledger accounts later.

In the head office books there will be a branch stock account, expenses accounts, total debtors accounts and an account for goods sent to branches. It should be noted that we have here an instance of a stock account being used as any other "real" account is used in double-entry book-keeping—since the items debited and credited to the account are valued on the same basis, namely, selling price. Normally, the stock account is opened at the end of the financial year and then ignored until the close of the following financial year, when it is written off by transfer to the trading account, purchases and sales during the year being taken to their respective accounts.

Quantity accounts of stock will be maintained at the head office, if the nature of the goods permits; these accounts will record all goods despatched to the branch and all sales effected by it. If circumstances do not permit the keeping of quantity stock accounts, some method of charging-out, enabling a check to be made on branch transactions, will be enforced. Invoices will be made out from orders received from the branch; from these invoices the branch stock account will be debited. A copy of each invoice will be sent to the branch, together with two copies of a weekly stock account showing receipts, sales, transfers, allowances and so on, and the final balance of stock. This final balance will be certified by the branch manager and a copy of the account returned to the head office, which will keep records, not only of the certified balances, but also of those taken by "mobile" stock-takers, if any are employed. The weekly return from the branch will often show stock movements as well as cash movements, together with details of sales control—debtors, cash paid by debtors, credit sales, allowances granted and so on.

If the selling price of the goods can be pre-determined and the variety of them is limited, the accounts can be used as a check on branch transactions, as well as for record purposes. The following aids to efficiency are then provided:

(1) An effective check on sales and stock is achieved—the branch manager must account for stock or for sales, as the case may be;

(2) as the stock (at selling price) is known at any time, interim accounts can be conveniently prepared;

(3) the branch manager need not be informed of the cost price.

This method cannot be used if the goods are perishable or the range of them is very wide or if selling prices are not fixed by the head office.

The following particulars were given in a recent examination question:

> Goods are charged to a branch by its head office at selling price. All cash received is remitted to head office and branch expenses are paid from an imprest account,

which is reimbursed monthly by head office. Branch transactions are recorded in head office books, but the branch keeps a sales ledger.

January 1	£	
Stock at branch	5,538	(selling price)
Debtors	1,096	
Goods received from head office	18,744	(selling price)
Cash sales	10,420	
Credit sales	8,474	
Goods returned to head office	288	(selling price)
Agreed allowances	164	
Cash received from debtors	7,972	
Discounts allowed	194	
Bad debts written-off	96	
Expenses	2,876	

At December 31, the stock at branch was £4,902 (selling price).

The head office ledger would be written up as follows:

BRANCH STOCK ACCOUNT

	£		£
To Balance	5,538	By cash sales	10,420
,, Goods sent to branches account,	18,744	,, credit sales	8,474
		,, goods returned to head office	288
		,, allowance off selling price	164
		,, balance carried down	4,902
		,, difference in stock	34
	24,282		24,282

BRANCH DEBTORS ACCOUNT

	£		£
To balance	1,096	By cash	7,972
,, goods	8,474	,, discounts	194
		,, bad debts	96
		,, balance	1,308
	9,570		9,570

GOODS SENT TO BRANCH ACCOUNT

	£		£
To branch stock account	288	By balance	5,538
,, allowances off selling price	164	,, branch stock account	18,744
,, difference in stock	34		
,, balance carried down	4,902		
,, trading account (sales)	18,894		
	24,282		24,282

Note that:

(*a*) The branch stock account is debited with all goods sent to the branch and the goods sent to branches account is credited.

(*b*) If goods are returned to head office, the entries in (*a*) are reversed.

(*c*) Branch debtors account or cash is debited with credit or cash sales and branch stock account credited.

(*d*) Closing stock is brought-down as a debit balance on branch stock account and as a credit balance on goods sent to branches account. In this way, the two balances cancel out and stock will be entered in the books at the proper valuation for the purposes of the trading account and balance sheet. Clearly, the balances representing stock at selling price will be the opening balances for the next period on the branch stock and goods sent to branch accounts.

(*e*) Differences on stock and allowances, if within accepted limits, should be written-off the branch stock account and transferred to goods sent to branches account.

(*f*) By this method of accounting no branch trading account is drawn up, since the cost of sales is not known. Had the question given the rate of gross profit on sales, it would have been possible to ascertain the cost of sales and thus the gross profit of the branch.

[*To be concluded*]

II—BACK DUTY

THE TERM "back duty" is used to denote those investigations that arise as a result of voluntary disclosures by a taxpayer that he has not been charged to tax on the correct amounts in past years, or alternatively, that arise as a result of enquiries by the Revenue and disclose that the taxpayer has understated amounts chargeable to tax in past years.

The persons involved in a back duty investigation, apart from the taxpayer and his professional advisers, are:

(*a*) H.M. Inspector of Taxes in charge of the tax district in which the taxpayer resides or has his principal place of business: he is allowed to settle cases where the settlement will be under a prescribed limit and does not involve limited companies or surtax. Settlements for larger sums or those concerned with companies and surtax are negotiated by the District Inspector but must go to the Chief Inspector of Taxes (Back Duty) for his approval.

(*b*) Instead of the local Inspector, an Inspector of the Inland Revenue Enquiry Branch will handle cases concerning several tax districts or involving fraud or where the *bona fides* of the accountant is suspected.

(*c*) The Board of Inland Revenue, which is the governing body of the inspectorate, authorises penalty proceedings and mitigates penalties under Section 500, Income

Tax Act, 1952.

(*d*) The Solicitor to the Board of Inland Revenue is concerned if criminal proceedings or legal points arise in the case under review.

(*e*) When the final amount due to the Inland Revenue has been agreed all payments are made to the Accountant and Comptroller General.

(*f*) The General and Special Commissioners of Taxes may be involved if there is a dispute as to the facts of the case or as to whether certain items are chargeable to income tax.

The Inland Revenue has many sources of information, of which the following are examples:

(*a*) Under the provisions of Section 29, Income Tax Act, 1952, the Inspector is informed of all interest over £15 per annum paid by Trustee, Post Office Savings and other banks.

(*b*) The procedure whereby the Revenue calculates the composite rate of tax applicable to building societies provides information about building society accounts.

(*c*) Purchases of Government securities are notified to the Inspector.

(*d*) The affidavit filed with the Estate Duty Office on a person's death frequently discloses assets that could not have been acquired with the income declared by the deceased in his tax returns.

(*e*) Details of all limited companies formed and registrations under the Registration of Business Names Act, 1916, are supplied to the Inland Revenue by the appropriate Registrars.

(*f*) The Valuation Office, which is part of the Inland Revenue, provides information to the Inspector about purchases and sales of property.

(*g*) Thefts of cash hoards announced in the newspapers commonly give rise to a back duty investigation and the result may be that the taxpayer not only loses the cash but also pays tax on the cash lost!

(*h*) Information arising in one back duty case may result in investigations being made into another taxpayer's affairs.

(*i*) By comparing returns over a period of years, an Inspector may discover that the investments and other property disclosed in the latest return could not have arisen from the income that the taxpayer has disclosed in past returns.

On the basis of information of this kind the Inspector will require the taxpayer to call upon him. Where possible the taxpayer's accountant should go with him, but in many cases the taxpayer has no professional adviser until after this interview. In the larger cases, however, the taxpayer will be required to visit an Inspector of the Inland Revenue Enquiry Branch. On such an occasion the interview is stereotyped and four questions are asked:

(1) Have any transactions been omitted from or incorrectly recorded in your books?

(2) Are the accounts you have sent in to the Inland Revenue correct and complete?

(3) Are all the annual taxation returns of income you have signed from time to time correct and complete?

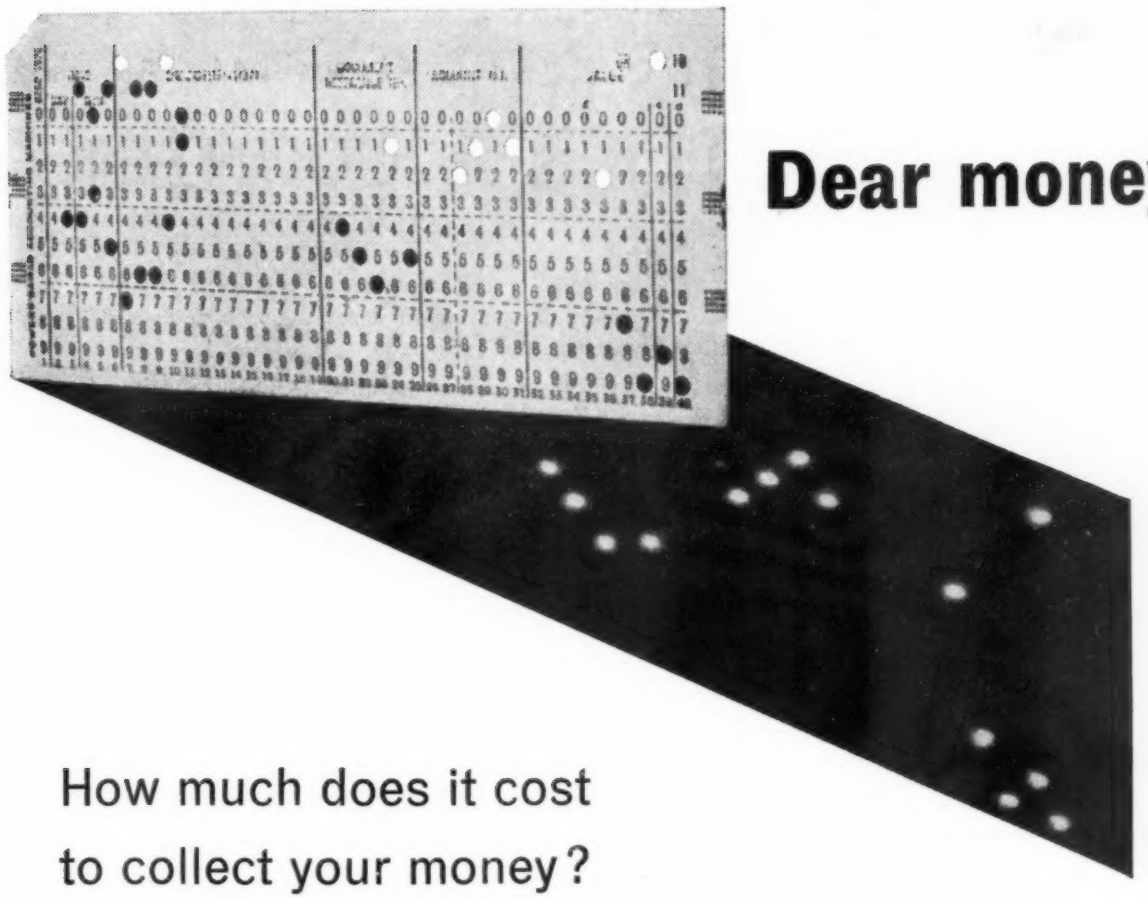
(4) Are you prepared to permit an examination of your business books, business and private bank statements and other business and private records in order that the Revenue may be satisfied that your answers to the first three questions are correct?

If the answer to the first question is "yes," the taxpayer will be required to supply a general statement about the extent to which profits and income have escaped taxation and the period covered, and a list of all business books and accounts, indicating those containing entries relating to profits not previously disclosed. A list of all bank accounts over which the taxpayer has control must be included—these will include not only his own accounts but those of his wife, and possibly his family. If the accountant has accompanied his client it is better that the client be warned to say little at this interview, and the accountant will inform the Inspector that he will make enquiries and contact the Enquiry Branch in due course.

At the interview the accountant and the Inspector agree a starting date for the period of the investigation. The first step is to have an interview with the client with a view to investigating all the latter's financial affairs. The accountant must mention the main methods of evasion of tax—omission of sales, fictitious purchases and understatement of stocks. At this interview the client should be required to supply all his bank statements, as many cancelled cheques as possible, his pay-in books, completion statements for the purchase and sale of properties, and details of purchases and sales of cars, furniture and the like. The accountant should from this information obtain a broad picture of the case and fix the accounting periods to be used throughout the period of investigation. These periods are normally years to April 5, but, if the taxpayer has a business and his accounts have been made up to some other date, may be fixed having regard to the accounting period of that business. The entire investigation is based on the fact that savings *plus* expenditure *minus* known receipts must equal omitted income. Three statements are required: firstly, a capital statement; secondly, an income and other receipts statement; and thirdly, an expenditure statement. The capital statement will show all assets and liabilities at the beginning of the period of investigation, the assets and liabilities at each April 5 (assuming this is the accounting date chosen) throughout that period and the assets and liabilities at the end of the period of investigation. By deducting from the net assets at the end of each year the net assets at the beginning thereof, the savings during each year can be ascertained.

In the income, etc., statement the accountant will show all known sources of income, not only items which are chargeable to income tax. There must be included drawings from the business, any director's fees received, any profits on sale of assets, net dividends and legacies received, betting wins, etc. The figure for each item must be allocated to the year of receipt.

An expenditure statement showing the living expenses of the taxpayer, any losses on sale of assets and any gifts made must then be prepared. When considering the living expenses of a taxpayer, considerable care should be taken to confirm that adequate amounts have been included in



Dear money

How much does it cost to collect your money?

Whether you sell goods or services, run a business or control the finances of a local authority, the preparation of invoices, bills, demands (call them what you will) involves costly clerical effort.

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respect of groceries, meat, milk and other necessities of life, having regard to the size of the taxpayer's family. Usually people underestimate the amount they expend on living expenses.

Finally, a summary statement showing the savings for each year, the expenditure for each year and the known income, etc., for each year must be prepared. By deducting the known income, etc., from the aggregate of the savings and the expenditure for each year, the omitted income for that year can be ascertained. After agreeing the figures with his client, the accountant should forward all four statements to the Inspector with any comments he may have. The Inspector will peruse these statements and ask questions on them. After satisfying the Inspector on the correctness of the statements, the accountant will await details of the tax under-paid and interest thereon, which will be prepared by the Inspector. On receipt of these details, the accountant will check them, after which he will approach his client and consider the offer that is to be made.

Bearing in mind that the offer must normally be at least as much as the tax that has been lost to the Revenue plus interest thereon, the accountant will consider the following factors that may influence the settlement:

(*a*) The period during which the tax has been lost. Unless fraud is alleged and proved, the Revenue can obtain tax and penalties only for the last six years from the date of commencement of the investigation. It may be that all the omissions are outside that period and that it is impossible to prove fraud in a particular case. It may then be possible to reach a settlement for a smaller figure than if the omissions were found to be in the last six years.

(*b*) The defaulter's age and health both now and at the time of the offences and his personal circumstances throughout the period of omission—if he has suffered from extreme pressure of business, or domestic trouble, there may be some excuse for his failing to declare the correct profits or perhaps to file any return.

(*c*) The education of the taxpayer and his standing in the district.

(*d*) The present financial position of the defaulter and whether it will be possible for him, in any reasonable period of time, to pay the maximum penalties.

(*e*) The assistance given to the Inland Revenue by the taxpayer since the investigation commenced.

Naturally the amount of the offer will depend on the facts of every case, but the accountant must be fully conversant with the penalty provisions of the Income Tax Act of 1952. These provisions are in Sections 18, 20, 25, 31, 48, 49, 90, 170, 199, 402, 410, 414, 505, 506 and 6th Schedule, Income Tax Act, 1952. In the space of the present article it is impossible to consider in detail the question of penalties, but it is proposed to publish another article on the subject in a future issue of ACCOUNTANCY.

Notices

(*See also page 463.*)

A lecture on **Executors and the Private Company** will be given on November 8 by Mr. H. D. G. Trew, LL.B., Barrister-at-Law, Assistant Manager of the Trustee Department of Westminster Bank Ltd. It is arranged by the Mansfield Law Club, and will be held at 6 p.m. at the City of London College, Moorgate, London, E.C.2. Visitors are welcome.

The membership of the **London Computer Group** exceeds 375, and is growing rapidly. The Chairman is Mr. D. W. Hooper, M.A., A.C.A., of the National Coal Board. Information on meetings and study sections, and forms of application for membership, will be sent on request by the Joint Honorary Secretaries, London Computer Group, 19A Coleman Street, London, E.C.2.

Management and Technological Training will be considered at a conference to be held on November 20 from 10 a.m. to 5 p.m. in the Council Chamber of the Federation of British Industries, 21 Tothill Street, London, S.W.1. It is organised by the North London Productivity Committee of the British Productivity Council, and applications to attend should be sent to the Honorary Secretary, Mr. Charles Cooper, M.I.PROD.E., M.I.I.A., 126 The Ridgeway, Enfield, Middlesex, with the registration fee of 10s. Accommodation is limited to 250 persons. One of the speakers will be the Rt. Hon. The Earl of Halsbury, F.R.I.C., F.INST.P., managing director of the National Research Development Corporation.

The London Chapter of the **Institute of Internal Auditors** has arranged the following meetings, to be held at the Kingsley Hotel, Bloomsbury Way, London, W.C.1.

November 7. "The Potentialities of Electronics," by Mr. D. W. Hooper, M.A., A.C.A., Chief Organising Accountant, National Coal Board. At 12.30 p.m.

December 1. Day Conference. At 10 a.m.

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January 2. "Requirements from Internal Audit," by Mr. E. H. Davison, A.C.A., Chief Accountant, Courtaulds Ltd. At 6.30 p.m.

February 6. "The Internal Auditor's Contribution to Management," by Mr. H. W. Parker, A.C.A., Director, Standard Telephones & Cables Ltd. At 12.30 p.m.

March 6. "Is Devolution of Management Control Overdone?" by Mr. H. P. Barker, Managing Director, Parkinson & Cowan Ltd. At 6.30 p.m.

April 3. "Insurance," by Mr. A. L. Watson, Central Electricity Authority. At 12.30 p.m.

May 1. "Engineering Audit," by Mr. A. W. Smedley, Rolls Royce Ltd. At 6.30 p.m.

June 12. Annual general meeting. At 6.30 p.m.

Messrs. **Moores, Carson and Watson,** Chartered Accountants, Glasgow, London and Liverpool, announce that Mr. G. F. Brown, C.A., and Mr. J. D. Foster, C.A., have joined the firm as partners and are practising in London.

Messrs. **Wilson, de Zouche and Mackenzie,** Chartered Accountants, Liverpool and London, announce that Mr. J. A. C. Evason, F.C.A., has been admitted to partnership in their London office.

The **Management Consultants' Association** has been formed by four British companies of consultants: Associated Industrial Consultants Ltd., Personnel Administration Ltd., Production-Engineering Ltd., and Urwick, Orr and Partners Ltd. They will continue to compete with each other in undertaking assignments but will pool their research in the new organisation.

The first week-end conference of the **Association of Superannuation and Pension Funds** will be held at Brighton from November 2 to 4. Subjects for discussion include the tax-free facilities granted by the Finance Act, 1956; how to go about initiating a pension scheme; legal and taxation points; investment problems; the relative merits of administration by a life assurance office or under a private trust deeed; and problems which arise on administration.

THE SOCIETY OF Incorporated Accountants

Incorporated Accountants' Course—Cambridge

AT THE GUEST night dinner on September 24, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., President of the Society, presided and proposed the toast of the guests. He expressed the Society's warm thanks to the Master of the College, Sir James Chadwick, for the excellent facilities afforded to them. These courses held in Cambridge were occasions of refreshment to the mind, stimulating the mental faculties and providing the opportunity to pause and think. It was a particular pleasure to see ladies present.

He gave a special welcome to two members from overseas. It was a source of pride that the Society was a world-wide one.

Sir Richard went on to thank all who had contributed to the success of the Course—the lecturers, the Chairman (Mr. W. G. A. Russell) and the members of the Course Committee, and the group chairmen.

The Master of Caius, Sir James Chadwick, was an eminent scientist, whose papers on radioactivity and connected problems were well known.

They were glad to welcome among their guests Mr. C. O. Stanley, chairman and managing director of Pye Radios Ltd., Cambridge, and Mr. F. Perkins, chairman and managing director of F. Perkins Ltd., Peterborough, High Sheriff of Huntingdonshire and President of the Society of Motor Manufacturers and Traders—another Nuffield in the fullest sense. Those names were synonymous with enterprise. They were captains of industry whose motto might well be, as expressed by Tennyson—"To strive, to seek, to find and not to yield."

Sir James Chadwick, F.R.S., PH.D., D.SC., Master of Gonville and Caius College, responded to the toast. He said he had greatly enjoyed that splendid occasion, and he welcomed the closer connection fostered by the course between the accountancy profession and the University of Cambridge.

Perhaps it would surprise them to know that only in recent years had the colleges availed themselves of the services of professional accountants. Before that time they prepared their own accounts and carried out the auditing themselves. He thought it would have been better, and certainly to the advantage of the colleges, if the change had been made earlier. But, of course, one of the reasons professional accountants were not employed was that in those days the colleges were very poor and had very little to account for!

In the early days the Master was also the Bursar and managed the college property—and the Master made out the bills to the undergraduates in his own hand. That system persisted in some of the poorer colleges until recent times. But because of the increasing wealth of the colleges and the increasing amount of business, it was found necessary to employ professional accountants who now prepared and audited all their accounts—from which they seemed to derive a great deal of satisfaction! (laughter).

Mr. C. O. Stanley (Chairman and Managing Director of Pye Radios Ltd.) also responded to the toast.

European Common Market

THE INCORPORATED ACCOUNTANTS' Society of Manchester and District held a dinner at the Midland Hotel, Manchester, on October 5. The chair was occupied by Mr. Frank O. Wilson, F.S.A.A., President of the District Society, and the guests included Alderman W. P. Jackson, C.B.E., a former Lord Mayor of Manchester; Sir Robert Cary, Bart, M.P.; Mr. Basil Nield, C.B.E., Q.C., Judge of the Crown Court and Recorder of Manchester; Mr. Bertram Nelson, C.B.E., F.S.A.A., immediate past-President of the Society of Incorporated Accountants; Mr. F. Rostron, M.B.E., M.I.E.E., President of the Manchester Chamber of Commerce; The Very Reverend H. A. Jones, B.SC., Dean of Manchester; and other representatives of the professions, commerce and industry.

Mr. F. O. Wilson, F.S.A.A. (President of the District Society), proposed the loyal toast. He congratulated Mr. Basil Nield, Q.C., on his recent appointment as Judge of the Crown Court and Recorder of Manchester.

Mr. Wilson observed that he had taken an active part for many years in the educational side of the Society's work. Whilst in the main students made use of postal tuition courses, other attended evening classes organised by Manchester Education Committee. He felt that attendance at lectures was vital if students wished to ensure success in examinations. The Society would continue its work in this important educational field.

Alderman W. P. Jackson briefly proposed the toast of the city and trade of Manchester and district.

Mr. Frank Rostron (President of Manchester Chamber of Commerce), in reply, said that the cotton industry was having more than its share of headaches at the present time. Its home trade, though steady, was small and had to be shared with cheap imports from India and Hong Kong. Recently redundancy had been far greater than in the motor industry, but it had occurred without conflict or strikes. Cotton firms would continue to expand their range of products even into entirely new fields. The general pattern would be for large firms to absorb the smaller and become more and more vertical.

The proposal for a common European market had had a very mixed reception. Some suppliers of high-class specialities supported the suggestion; others feared the effect on Commonwealth relations, and engineering firms particularly considered that their British and European markets would be swamped by Western Germany. The choice for this country seemed to be limited to one of three courses—complete integration, active participation or participation in a modified arrangement with certain safeguards. The whole question bristled with difficulties.

Sir Robert Cary, M.P., who proposed the toast of the Society of Incorporated Accountants, said he felt that the next few years would be the most critical through which we had passed: decisions would be taken which would affect the future not only of our business life, but of civic life and individual life, towards the end of the century. Whilst a customs union such as had been proposed might

be a threat to some Commonwealth countries, it might in the long run be a way out of some of our problems. He hoped that discussion in the House of Commons would be on an objective plane.

Mr. Bertram Nelson, C.B.E., F.S.A.A., immediate past-President of the Society, responded. He paid a tribute to the services of Mr. C. Yates Lloyd, Hon. Secretary of the Manchester and District Society.

Mr. Nelson said he had just returned from Utrecht and Düsseldorf, where he had represented the Society at conferences of the Netherlands Institute of Accountants and of the Institüt der Wirtschaftsprufer. He had the feeling that industrialists and economists in Europe had an earnest desire for Great Britain and the Commonwealth to take their due part in the creation of the European common market. We in this country were faced with perhaps the most serious economic and commercial decision of this century. The attractions were considerable—we could create a common market of about 240 million people (greater than that of the United States or the Soviet Union)—and it might be found that the problem of inflation could not be cured without some major step of the kind proposed.

The opportunities were there, but of course there were risks and the proposals must be regarded with the greatest care. There should be enthusiastic interest subject to a number of precautions. In a partial free trade area, he hoped conditions would be created under which business could flow from country to country without detailed Government controls. If there were such controls the effects might be disastrous, and they would be even more so if the matter became the plaything of politics, so that a change of Government would lead to a major change in the economic policy of the country. He hoped the matter would be dealt with outside the field of politics.

With many of the concepts, they as accountants would be concerned. Purchase tax would have to be changed greatly, and taxation systems of all countries would have to be reviewed.

There must inevitably be intensive competition in price and quality, in delivery and in service. Above all, there would be competition in design. Design in Britain at the moment did not compare favourably with design abroad, and unless the consumer would back the manufacturer in buying good design the European common market would merely show how weak we were in many industries. The common market might encourage unduly the process of rationalisation at the expense of the valuable small businesses, but a remedy for the small business man was to be alert, flexible and adventurous.

The toast of "Our Guests" was proposed by Mr. Thomas Hodgson, vice-president of the Manchester Society, and Mr. Basil Nield, Q.C., responded. Mr. Nield said he understood that the whole field of economics could be condensed into "If your outgoing exceeds your income, your upkeep will be your downfall."

London Dinner to Successful Final Students

THE LONDON STUDENTS' SOCIETY recently gave a dinner at Incorporated Accountants' Hall to members of the Students' Society who were successful at the last Final Examination. About sixty members attended. The President (Mr. J. A. Jackson), welcoming the students, remarked that this was their first visit to the Hall as members of the parent Society. He hoped that they would give full support to the various courses, lectures and functions arranged for them. The Society of Incorporated Accountants relied upon them to maintain its prestige and standing by their support and work.

Mr. Edward Baldry (Vice-President of the parent Society) said that they were now members not only of the Society but also of a great profession. There would be many temptations before them in the course of their professional careers but they must never give way to them. Their fullest support should be given to the London District Society and he hoped that they would endeavour to take some active part in its work.

The Chairman of the London District Society (Mr. W. J. Crafter) welcomed the students to membership of the London District Society. He observed that the Society's objects were threefold: to bring the members together, to arrange occasional entertainment for them, and to arrange lectures.

In a reference to the integrity of the profession Mr. Crafter said that those members who went into industry no less than those on the practising side could also help to uphold the high standards of the profession.

Mr. G. P. Laxton, on behalf of the students, expressed thanks to the officers of the Society and to the Students' Society for the help given to them while studying, and to the parent Society and to the London District Society for the welcome given that evening.

Council Meeting

A MEETING OF the Council was held on September 7, at which there were present: Sir Richard Yeabsley (President), Mr. Edward Baldry (Vice-President), Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. A. Arnold, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. Mervyn Bell, Mr. Robert Bell, Mr. C. V. Best, Mr. A. Blackburn, Mr. W. R. Booth, Mr. Andrew Brodie, Mr. Henry Brown, Mr. W. F. Edwards, Mr. E. Cassleton Elliott, Mr. L. C. Hawkins, Mr. J. S. Heaton, Mr. Hugh O. Johnson, Mr. H. L. Layton, Mr. C. Yates Lloyd, Mr. Festus Moffatt, Mr. Bertram Nelson, Mr. P. D. Pascho, Mr. S. L. Pleasance, Mr. F. E. Price, Mr. F. A. Prior, Mr. J. W. Richardson, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. J. Stephenson, Mr. C. H. Sutton, Colonel R. C. L. Thomas, Mr. E. J. Waldron, Mr. A. H. Walkey and Mr. Richard A. Witty.

The Council approved the admission of seven candidates as Associates of the Society, subject to payment of the prescribed fees. Five members were registered as members in retirement.

A report of the death of each of the following members was received with regret: CHAKRAVARTI, Benoybrata (Associate) Calcutta; HOLDSWORTH, George Henry (Associate) Ilkley; JONES, Arthur Adamson (Associate) Colwick; LEE, Charles Leslie (Associate) Wolverhampton; PHILIP, Cyril (Fellow) Wrexham; PITTOCK, Frederick Arthur (Associate) Todmorden; ROTHWELL, Lionel Alan (Fellow) London; ROXBURGH, James Murdoch (Fellow) Port Glasgow; STEPHENSON, John Alfred (Associate) Medmenham.

District Societies and Branches

Central African Branch

MR. K. T. WARD, F.S.A.A., has been elected Chairman of the Branch, and Mr. B. W. S. O'Connell, F.S.A.A., Vice-Chairman.

Bombay

THE FOLLOWING OFFICERS have been elected: President, Mr. N. A. Daroowalla; Vice-President, Mr. M. P. Mistry; Joint Secretaries, Mr. L. C. Hansotia and Mr. H. B. Dhondy; Treasurer, Mr. H. B. Dhondy; Honorary Auditor, Mr. N. R. Mandviwalla.

MR. N. A. DAROOWALLA,
B.COM., A.S.A.A., A.C.A. (India), A.C.I.S.

The new President of the Bombay and District Society Mr. N. A. Daroowalla, is Chief Accountant of the New India Assurance Co. Ltd., the largest composite insurance company in India. After taking his degree in Bombay University, Mr. Daroowalla entered into articles, and qualified as an Incorporated Accountant in 1927. He then spent a year in public practice in Bombay before joining the New India Assurance Co. Ltd.

Mr. Daroowalla has been an active member for many years of the Incorporated Accountants' Bombay and District Society. He is a prominent Freemason.

Sheffield

Annual Report

TWELVE LECTURE AND discussion meetings were held, and one visit to a company to see accounting machines. A dinner dance held in December, 1955, was most enjoyable.

The Committee again thanks Mr. Arnold Graves, F.S.A.A., for his work in connection with the library, which is housed in the Law Society rooms under the joint ownership of the Institute and Society.

Fifteen students were successful with Final Examination, and sixteen (one with honours) in the Intermediate.

Saturday morning classes were held jointly with students of the Institute.

The membership comprises 192 Fellows and Associates and 198 students.

East Anglia

MR. J. C. THORNLEY, F.S.A.A.

Mr. J. C. Thornley has been elected President of the Incorporated Accountants' District Society of East Anglia. He received his training in the office of Messrs. Stephenson, Smart & Co., at Kings Lynn, and since his admission to membership of the Society in 1928 he has been a partner in the firm at King's Lynn and Hunstanton.

Mr. Thornley serves on the Boards of Governors of the King George VI Grammar School and of the secondary modern and primary schools of King's Lynn. He is a member and past President of King's Lynn Rotary Club, a past President of the Chamber of Trade, and Past Master of Lenne Lodge. He finds relaxation in golf.

MR. J. C. THORNLEY, F.S.A.A., has been elected President, and Mr. R. H. Taylor, F.S.A.A., Vice-President. Mr. W. J. Hayden, F.S.A.A., has been elected to the position of Honorary Treasurer, which became vacant by the death last March of Mr. C. L. Kebbell, A.S.A.A.

North Staffordshire

THE ANNUAL MEETING was held on September 28.

The new officers and committee are as follows: President, Mr. R. A. Hamilton; Immediate past President, Mr. F. S. Ralphs; Vice-President, Mr. W. A. Follows; Hon. Treasurer, Mr. L. Goodwin; Hon. Secretary, Mr. J. P. Elliott; Committee, Mr. E. Downward, Mr. F. A. Teasdale, Mr. A. Brodie, Mr. W. S. Dalby, Mr. K. V. Longbottom, Mr. N. S. Stoddard, Mr. E. S. Stoddard, Mr. T. W. Porter, Mr. C. A. Tavernor, Mr. A. P. Walker, Mr. A. H. Mountford, Mr. E. R. Hall, Mr. T. B. Green, Mr. D. P. Johnstone, and Mr. E. Buxton.

MR. R. A. HAMILTON, F.S.A.A.

The new President of the District Society of North Staffordshire, Mr. R. A. Hamilton, F.S.A.A., is a partner in Messrs. J. Paterson Brodie & Son, of Burslem and Longton, Stoke-on-Trent. He became a member of the Society in 1925, after serving his articles with Mr. F. C. Crosland in Leeds. He remained in Leeds until the outbreak of World War II, when as a member of the Emergency Reserve he took up a commission in the Royal Army Pay Corps, serving in Scotland, Palestine and the Sudan and reaching the rank of Major and Staff Paymaster. At the end of the war he joined Messrs. J. Paterson Brodie & Son, and in 1948 was admitted to partnership.

Mr. Hamilton was Honorary Secretary of the District Society from 1948 to 1954, when he was elected Vice-President.

He is a founder member of the recently formed Rotary Club of Burslem.

South Wales and Monmouthshire

THE AUTUMN MEETING of the Golfing Society, held at Newport Golf Club, Rogerstone, on October 4, was attended by forty members and visitors, including Mr. K. G. Sim, F.S.A.A., President of the District Society, and Mr. W. P. R. Peters, A.S.A.A., Captain of the Golfing Society.

The results were as follows:

Morning Medal Round. Members: first, L. Godfrey (who also won the R. C. L. Thomas Trophy), 79—5=74; second, R. E. Williams, 96—22=74; third, J. W. H. Mitchell, 77—3=74. *Visitors:* first, L. Dewar, 80—12=68; second, R. L. Thompson, 85—12=73.

Afternoon Stableford Foursomes. First, T. M. Dawson and W. Lucas, 34 points; second, F. M. Forster and J. W. H. Mitchell, 32 points.

Swansea and South-West Wales

THE OFFICERS AND committee are now as follows: President, Mr. G. E. Gibbs, J.P.;

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Supplement to "Accountancy" (November 1956.)

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Vice-President, Mr. D. E. Davies; Committee, Mr. W. H. Charles, Mr. H. K. Greaves, Mr. J. Ll. Hunkin, Mr. F. E. Jeffs, Mr. C. G. Mullens, M.C., J.P., Mr. E. E. Porter, Mr. H. D. Pritchard, Mr. J. G. Powell, Mr. M. W. Rosser, Mr. A. W. L. Sleeman, Mr. G. M. Squire, Mr. G. A. Watkins, Mr. C. Ll. Powell; Hon. Treasurer, Mr. G. M. Squire; Hon. Auditor, Mr. T. W. Jones; Hon. Librarian, Mr. J. G. Powell; Hon. Secretary, Mr. J. Ll. Hunkin; Hon. Secretary of the Students' Section, Mr. N. H. Davies.

Annual Report

The membership is 173, comprising 19 Fellows, 61 Associates and 93 students.

The Committee report with regret the death of Mr. Benjamin Baddiel, A.S.A.A., who had rendered valuable service to the District Society, and also of one articled clerk.

Three students completed the Final examination, four passed Part I, and seven passed the Intermediate.

Some interesting lectures were arranged by members and by students in conjunction with other professional bodies.

The District Society was honoured by a personal visit of the President, Mr. Bertram Nelson, C.B.E. At the close of the annual general meeting in 1955 the members were addressed by His Honour Judge Trevor Morgan, Q.C., on the rights of the Crown.

Scottish Branch

A MEETING OF the Council was held in Glasgow on October 5.

Mr. Festus Moffat, O.B.E., J.P., President of the Branch, welcomed Mr. Stuart MacRae, who was attending a Council meeting for the first time.

A discussion took place on educational standards and the training of candidates for the Society's examinations.

The Council received with regret a report of the death of Mr. John A. Gough, F.S.A.A., a member of the Scottish Council from 1923 to 1952.

Events of the Month

November 1.—*Hull:* "Principles of Insurance," arranged by Liverpool, London & Globe Insurance Co. Ltd. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.
Liverpool: Lectures for Final students, by Mr. V. R. Anderson. "Group Accounts," at 10.30 a.m. "Branch Accounts," at 2.30 p.m. Incorporated Accountants' Hall.
London: "Audit Procedure," by Mr. J. P. S. Edge-Partington, A.C.A., A.S.A.A. For new students. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 2.—*Birmingham:* "Wills and Intestacy," by Mr. G. T. Smith, A.C.I.S. Law Library, Temple Street, at 6.15 p.m.
Glasgow: "Preparing for the Examinations," by Mr. Alistair Macdonald, M.B.E., A.S.A.A. Students' meeting. Scottish College of Commerce, Pitt Street, at 6.15 p.m.
Gloucester: "Treatment of Losses in Taxation," by Mr. K. H. Fickling, F.S.A.A. Gloucester Technical College, Brunswick Road, at 6.30 p.m.
Manchester: "Elements of English Law," by Mr. J. Stewart Oakes, Barrister-at-Law. Students' meeting. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.
Sheffield: "Schedule 'D' Computations—Losses," by Mr. James S. Heaton, F.S.A.A. Grand Hotel, at 6 p.m.
Swansea: Students' Lecture. Y.M.C.A. Buildings, at 5 p.m.

November 2–4.—*Leeds:* Students' non-residential pre-examination revision course.

November 5.—*Colchester:* "Mechanical Computers," by Mr. W. A. Clarke of Leo Computers, Ltd. Joscelin Café, High Street, at 7 p.m.
Hull: Luncheon meeting. New Manchester Hotel, at 1 p.m.
London: "Exchange Control and Oversea Trade," by Mr. F. D. Forgan, M.COM., A.I.B. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 6. — *Newcastle upon Tyne:* "Profits Tax," by Mr. J. E. Spoors, F.S.A.A. Library, 52 Grainger Street, at 6.15 p.m.
Preston: Dinner. Bull and Royal Hotel, at 6.15 p.m.
Stoke-on-Trent: "Utilisation of Losses," by Mr. J. L. Thorpe, M.A., Inspector of Taxes. Town Hall, Hanley, at 6.30 p.m.

November 7.—*London:* Taxation Group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 8.—*Liverpool:* Lectures for Final students, by Mr. V. R. Anderson. "Costing," at 10.30 a.m. "Miscellaneous Accounts," at 2.30 p.m. Incorporated Accountants Hall.
Norwich: Visit to *Norfolk News* Printing Presses. St. Andrew's Hill, at 7.15 p.m.

November 9.—*Birmingham:* "How Much?" by Professor Hugh Goitern. Law Library, Temple Street, at 6.15 p.m.
Leicester: "Law of Contract and Sale," by Mr. J. Stewart Oakes, Barrister-at-Law. Students' meeting. Bell Hotel, Humberstone Gate, at 6 p.m.
Manchester: "Executorship Accounts," by Mr. J. Linahan. Students' meeting. 90 Deansgate, at 6 p.m.
Nottingham: Dinner. Victoria Station Hotel, at 7 p.m.
Sheffield: "Management Accounting," by Mr. F. C. de Paula, T.D., A.C.A., F.C.W.A. Grand Hotel, at 6 p.m.
Southend-on-Sea: "Valuation of Shares," by Dr. C. R. Curtis. Students' meeting. Chamber of Trade Rooms, 33 Victoria Avenue, at 7.30 p.m.

November 13. — *Birmingham:* Dinner. Queen's Hotel.
Leeds: Mock Appeal, by students and members. Great Northern Hotel, at 6.15 p.m.

November 13–16.—*Society of Incorporated Accountants:* Examinations.

November 14. — *London:* Management Group meeting. "Practical Problems arising in the preliminary stages of Budget Preparation," by Mr. S. G. Morgan, M.B.E., A.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 15.—*London:* Luncheon Club meeting. "Parliamentary Cricket," by Mr. Hubert Ashton, M.C., M.P. Connaught Rooms, at 12.45 p.m.
London: "The Purpose of Accounts," by Mr. A. C. Simmonds, F.S.A.A. For new students. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Newton Abbot: "Executorship Law and Accounts," by Mr. V. S. Hockley, B.COM., C.A. Courtenay Restaurant, Courtenay Street, at 6 p.m.

November 16.—*Birmingham:* "Forecast for 1957," by Mr. Bernard Newman, F.R.S.A., C.H. Joint meeting. Birmingham Chamber of Commerce, New Street, at 7 p.m.
Cambridge: Lecturettes by members and students of the Cambridge Centre. Shire Hall, at 7.15 p.m.
Truro: "Executorship Law and Accounts," by Mr. V. S. Hockley, B.COM., C.A. Mansion House, Princes Street, at 6 p.m.

November 19.—*London:* "Public Issues," by Mr. C. M. Rait, M.C., T.D. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 20.—*Belfast:* Dinner. Grand Central Hotel.
Bradford: Informal dinner. Victoria Hotel.

November 21.—*Newcastle upon Tyne:* "Partnership Tax," by Mr. K. Forster, A.S.A.A. The Library, 52 Grainger Street, at 6.15 p.m.

November 22.—*Lincoln:* "Executorship with special reference to Apportionments," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Great Northern Hotel, at 6.15 p.m.
London: Stamp-Martin seminar. "Legal and Constitutional Aspects of the Investment of Trust Funds in the British Commonwealth of Nations." Discussion opened by Professor R. C. Fitz-Gerald, LL.B., F.R.S.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

November 23.—*Birmingham:* "Tax Avoidance by Deeds of Covenant," by Mr. A. J. Turner, F.S.A.A. Law Library, Temple Street, at 6.15 p.m.
Manchester: "The Accountant's Liability at Law," by Mr. C. C. Hunt. Students' meeting. 90 Deansgate, at 6 p.m.
Norwich: "Bankruptcy and Trusts," by Mr. R. D. Penfold, LL.B. Royal Hotel, at 7 p.m.
Nottingham: "Elements of English Law," by Mr. P. H. Race, Solicitor. Reform Club, at 6.30 p.m.
Truro: Dinner. Red Lion Hotel.

November 26.—*Coventry:* "Executorship Accounts," by Mr. W. W. Goodsman, A.I.B. Rose and Crown Hotel, High Street, at 6.15 p.m.
London: "Provisions of the Finance Act, 1956, in relation to Pension Schemes," by Mr. G. W. Pingstone. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Swansea: Dinner. Osborne Hotel, Landland.

November 28.—*Swansea:* Joint lecture. Mackworth's Hotel, at 6.30 p.m.

November 29.—*London:* "Day to Day Business Law," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law. For new students. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Newcastle upon Tyne: Luncheon. "Northumbrian Dialect and Humour," by Mr. Russell Storey, J.P. Eldon Grill, Blackett Street, at 1 p.m.

November 30.—*Birmingham:* "Inflation and the British Economy," by Mr. E. A. Holloway, of the Industrial Advisory Bureau. Joint meeting. Chamber of Commerce, New Street, at 6.30 p.m.
Leicester: "Duties and Responsibilities of an Auditor," by Mr. A. C. Simmonds, F.S.A.A. Students' meeting. Bell Hotel, Humberstone Gate, at 6 p.m.
Manchester: "The Accountant's Liability at Law," by Mr. J. Stewart Oakes, Barrister-at-Law. 90 Deansgate, at 6 p.m.
Waterford: "The Sale of Goods Act and the Basis of Common Contract," by Mr. R. J. Farrell, Solicitor. Students' meeting. Offices of Messrs. W. A. Deevy & Co., Broad Street, at 8 p.m.
Worcester: "Schedules A, B, C and E," by Mr. J. W. Walkden, F.C.A., F.S.A.A. Crown Hotel, Broad Street, at 6.30 p.m.

December 3.—*Hull:* Luncheon meeting. New Manchester Hotel, at 1 p.m.
Ipswich: "Executorship Law and Accounts," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Lacquer Room, Oriental Café, Westgate Street, at 7 p.m.
London: "Economic Review 1946–56," by Mr. A. R. Ilersic, M.SC.(ECON.), B.COM. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

December 4.—*Carlisle:* "Company Law," by Mr. R. D. Penfold, Barrister-at-Law. County Hotel, at 6.30 p.m.

December 5. — *Newcastle upon Tyne:* "Statutory and Equitable Apportionments," by Mr. R. D. Penfold, Barrister-at-Law. The Library, 52 Grainger Street, at 6.15 p.m.
Sheffield: "Estate Duty," by Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A. Grand Hotel, at 6 p.m.

December 6.—*Middlesbrough:* "Company Law," by Mr. R. D. Penfold, Barrister-at-Law. Café Royal, Linthorpe Road, at 6.30 p.m.
Wolverhampton: "Back Duty Investigation," by Mr. J. W. Walkden, F.C.A., F.S.A.A. Star and Garetr Hotel, at 6.15 p.m.

December 7.—*Birmingham:* "Examination Notes and Trends," by Professor D. Cousins. Law Library, Temple Street, at 6.15 p.m.
Bradford: "The Auditor and Mechanised Accounting," by Mr. A. C. Simmonds, F.S.A.A. Victoria Hotel, at 6.15 p.m.
Brighton: Dinner. Royal Pavilion.
Glasgow: "Cases I and II, Schedule 'D'," by Mr. J. D. Stewart, O.B.E., A.S.A.A. Students' meeting. Scottish College of Commerce, Pitt Street, at 6.15 p.m.
Manchester: "Economics," by Mr. A. R. Ilersic, M.SC.(ECON.), B.COM. Students' meeting. 90 Deansgate, at 6 p.m.
Norwich: Mock annual general meeting of company. Joint meeting with Cambridge Centre. Royal Hotel, at 7 p.m.
Sheffield: Mock company meeting. Grand Hotel, at 6 p.m.
Southend: "Variances in Standard Costing," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Students' meeting. Chamber of Trade Rooms, 33 Victoria Avenue, at 7.30 p.m.
Swansea: "Current Economic Trends," by Mr. C. R. Curtis, M.SC.(ECON.), PH.D. Students' meeting. Y.M.C.A. Buildings, at 7 p.m.

Personal Notes

Mr. C. A. French, A.S.A.A., A.I.M.T.A., has been appointed a Deputy Chief Accountant at the headquarters of the Central Electricity Authority. He was formerly Assistant Chief Accountant.

Messrs. Christopher Smith & Son, Sheffield and Gainsborough, announce that they have taken into partnership Mr. Ronald Tyzack, A.C.A., who, except for a break during and after the war, has been with them for the past eighteen years. Mr. C. A. Whittington-Smith, F.C.A., F.S.A.A., has formally retired from the practice but continues to be available in an advisory capacity.

Mr. J. A. Walter, B.SC.(ECON.), A.S.A.A., has been appointed Assistant Head of the Returns and Statistics Branch of the Registry of Friendly Societies.

Mr. A. Bird, A.S.A.A., is now the Chief Accountant in the Public Trustee Office.

Messrs. Stephenson, Smart & Co. have admitted Mr. M. V. Allcoat, A.S.A.A., as a partner in their Wisbech office.

Mr. Norman Alexander, F.C.A., F.S.A.A., has been elected a member of the Committee of Management of the International Exhibition Co-operative Wine Society.

Removal

Messrs. Hays, Akers & Hays announce that they have moved to new offices at 30 Cursitor Street, Chancery Lane, London, E.C.4.

Obituary

Arthur Meredith Allen

THE CHARTERED INSTITUTE of Secretaries has suffered a severe loss by the death on September 17 of its Secretary, Dr. A. M. Allen, M.A., B.COM., PH.D., F.C.I.S. He was 48 years of age.

Dr. Allen was educated at Christ's Hospital and at Hertford College, Oxford. He was in the Westminster Bank from 1932 to 1935, and from 1935 to 1939 held the office of Assistant Secretary of the Institute of Bankers. He obtained the degrees of B.COM and PH.D., and became a Fellow of the Institute of Bankers, having taken third place in the Final Examination. He became very well known as an author and lecturer on banking subjects.

In 1939 he was appointed Deputy Secretary of the Chartered Institute of Secretaries but in World War II he served for five years in the Royal Air Force Volunteer Reserve, becoming a Squadron-Leader in the Administrative Branch. At the end of the war he was called to the Bar at the Inner Temple. He became Secretary of the Chartered Institute of Secretaries in 1946, and was elected a Fellow of the Institute in the following year.

The funeral took place at Golders Green Crematorium on September 20. The Society of Incorporated Accountants was represented by its Secretary, Mr. I. A. F. Craig, O.B.E. A memorial service was held on October 2 at St. Martin-within-Ludgate, London, E.C.4.

Alfred William Manssuer

WE REGRET TO announce the death on October 11 of Mr. A. W. Manssuer, F.S.A.A.

Mr. Manssuer was eighty-one years of age. For forty-five years, until his retirement only a few weeks ago, he was associated with Messrs. Langton & MacConnal, Incorporated Accountants, Liverpool. He became a member of the Society in 1921, and in the following year was admitted to partnership in the firm.

In 1935 he was elected a member of the Committee of the Incorporated Accountants' District Society of Liverpool, on which he served for several years.

Anson Lester Boddington

WITH REGRET WE record that Mr. A. L. Boddington died on September 20, at the age of seventy. He was well known to many members of the accountancy profession as a former tutor of H. Foulks Lynch & Co. Ltd., and as author of a number of books, including *Statistics and their Application to Commerce* and *Financial Statements: their Treatment and Interpretation*. At the time of his death he was chairman of several companies.

Mr. Boddington was Mayor of Croydon in 1943/44. He served for twenty-five years as a councillor and alderman of the borough, and was chiefly responsible for the excellent state of preparedness of the air raid precautions service in Croydon at the outbreak of World War II.

During World War I he served in the Royal Navy.

Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . . , c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

APPOINTMENTS VACANT

THE SOCIETY'S APPOINTMENTS REGISTER

Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

THE MIDDLESEX HOSPITAL

Applications invited for new post of SENIOR ACCOUNTANCY ASSISTANT to take charge of comprehensive departmental costing system. Commencing salary £703, rising to £867. Contributory Superannuation Scheme. Applications, giving age and details of experience, to Finance Officer, THE MIDDLESEX HOSPITAL, W.1, by November 12, 1956.

ACCOUNTANTS required by the GOVERNMENT of NORTHERN NIGERIA for Public Works Dept. for one tour of 12-24 months in first instance. Salary scale (including inducement addition) £1,086 rising to £1,680 a year with prospect of permanency or £1,170 rising to £1,824 on temporary basis with gratuity of £100/£150 a year. Commencing salary according to experience. Outfit allowance £50/£60. Free passages for officer and wife. Assistance towards cost of children's passages and grant up to £288 a year for their maintenance in U.K. Liberal leave on full salary. Candidates, not over 45 years of age, must be members of a recognised body of professional accountants and preferably have had at least 5 years' good experience with a firm of Accountants, a Bank, Local Authority or Public Company. Organising ability and experience in the control of accounting staff an advantage. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/43044/AD.

ADVERTISER of vacancy for a CHARTERED OR INCORPORATED ACCOUNTANT under Box No. O/2358, in the issue of August 1956, announces that the vacancy has now been filled and wishes to thank those applicants who have written and to whom the advertiser has been unable to reply.

AN AUDITOR with several years' practical experience is required for the Internal Audit Department of a trading organisation operating in British West Africa. The company's policy in the development of internal audit work is essentially constructive, and if the job is tackled in this way there will be opportunities for promotion within the group.

The commencing salary will be £1,200 per annum: free furnished accommodation is provided: first class passages to and from Africa: there is also a pension fund. Apply to Box No. 414, c/o ACCOUNTANCY.

APPLICANTS with the necessary experience requiring BETTER positions as Senior, Semi-senior and Junior AUDIT CLERKS should contact us. We have a good selection. Other Professional and Commercial posts available. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1978.

ASSISTANT CHIEF ACCOUNTANT, Georgetown, British Guiana. Chartered or Incorporated Accountant with industrial experience required for company with international affiliations. Periodic home leave with passages paid. Top salary, pension plan and other benefits. Interview in London. Write Box W.808, c/o STREETS, 110 Old Broad Street, E.C.2.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-Senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

BRANCH ACCOUNTANT (qualified) required by London Merchants in Malaya. Remuneration approximately £1,500 p.a. plus provident fund and free accommodation. Write for interview, giving particulars of experience etc., to Box "R.F." c/o J. W. VICKERS & Co. LTD., 7/8 Great Winchester Street, E.C.2.

CHARTERED ACCOUNTANTS (City) require Audit Clerk able to work to final figures. Articles might be given. Write Box SE/99, c/o 95 Bishopsgate, E.C.2.

CHARTERED OR INCORPORATED ACCOUNTANT, age about 30 to 35, required by large firm of car and truck Distributors in Midlands, to take over Accounts Department, Burroughs Sensimatic accounting. Must be fully competent to produce monthly trading accounts and balance sheets and to introduce Manufacturers' costing systems. Knowledge of Ford costing system would help. House accommodation available if required. Apply stating experience and salary required to: H. R. HORNE & PARTNERS, 42 Friar Gate, Derby.

ENTHUSIASTIC YOUNG MEN, preferably not over 30, with real zest for a challenging Sales career offering high rewards promotionally and financially, should apply at once to the Personnel Director, BURROUGHS ADDING MACHINE LIMITED, Avon House, 356/366 Oxford Street, London, W.1 (quoting ref. A.10/56). Enthusiasm and zest however must be combined with proved knowledge and business experience — Good School Certificate or G.C.E. (O) absolutely essential; H.S.C. or G.C.E. (A) preferable—Accounting Qualification and experience are desirable but sound knowledge of the subject is essential. Interviews will be arranged at the nearest Burroughs Branch.

GROWING FIRM of Chartered Accountants in British Columbia requires recent graduates or Incorporated Accountants. Good opportunities for advancement, particularly if willing to commence in a junior capacity in order to familiarise yourself with Canadian conditions. Applicants will be paid commensurate with experience and ability.

Preference will be given to those considered to be partnership material.

Vacancies available at:
Prince George
Terrace
Kitimat
Vancouver.

Please address all replies and forward small photograph to A. P. GARDNER & Co., 1453 Fourth Avenue, Prince George, B.C.

LARGE CITY FIRM of accountants have vacancies for qualified accountants. Salaries from £750 according to experience, plus luncheon vouchers, pension fund and paid overtime. Five-day week. Box No. 409, c/o ACCOUNTANCY.

LARGE Manufacturing and Selling Organisation in United Kingdom seeks applications from Chartered or Incorporated Accountants for important position of Chief Internal Auditor; must be able to control staff, have experience of modern accountancy methods, including management, and mechanised and cost accountancy. Age 35 to 40 years. Commencing salary £2,500 to £3,000 per annum, pension scheme. Apply Box No. 411, c/o ACCOUNTANCY.

MITCHELL COTTS & CO. LTD.

wish to appoint a Resident Chief Accountant for service at the Head Office of its Affiliated Company, Mitchell Cotts & Co. (Red Sea) Ltd., in Aden. Applicants should be Chartered, Incorporated or Certified Accountants with previous commercial experience, be not less than 30 years of age and be able and willing to assume responsibility. Employers have branch offices in Ethiopia, Somaliland Protectorate and French Somaliland. Furnished accommodation in Aden is available on privileged terms, and there are family and other allowances. Non-contributory Pension Scheme in operation. Home leave in alternate years. Excellent prospects. Applicants should write, in confidence, to the Personnel Officer, 2 Queen Anne's Gate, London, S.W.1, with full personal data, qualifications, experience, previous employment and salary required.

OXFORD Chartered Accountants have vacancies for Senior and Semi-Senior Audit Clerks. Sound varied practice with scope for increasing responsibility. Applicants should send brief details of their career and state salary required to WENN, TOWNSEND & Co., 55 Cornmarket Street, Oxford.

SECRETARY. A vacancy occurs in a company engaged in the Entertainment Industry in South London for a Company Secretary. The duties will involve supervision of the administration of the company, together with detailed administration and organisation of the accounts department. Apart from the normal accounting duties, the applicant must have experience in cost and factory accounting. Applications in the first instance in the applicant's handwriting, stating full details of past and present experience and salaries earned and required should be made to Box No. 400, c/o ACCOUNTANCY.

SECRETARY for City Chartered Accountant, well educated and experienced, aged 25-35, good salary. Write Box OC/16, c/o 95 Bishopsgate, E.C.2.

SECRETARY / ACCOUNTANT required by ZANZIBAR GOVERNMENT for ELECTRICITY BOARD for one tour of 30-36 months in first instance. Salary in scale £1,287 rising to £1,617 a year. Gratuity at rate of 13½% of total substantive salary drawn. Free passages. Liberal leave on full salary. Candidates, not less than 35 years of age, must hold a recognised professional accountancy qualification, and have several years' administrative experience in the accounting section of an electricity undertaking. Experience of stores, stores accounting and hiring of electrical apparatus an advantage. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/43513/AD.

SENIOR AUDIT ASSISTANT required by old-established London Chartered Accountants with expanding practice. Position of considerable responsibility with commensurate salary. Apply in own handwriting, stating age, experience and salary required, to Box No. 410, c/o ACCOUNTANCY.

VACANCIES available for qualified Accountants in South America, West Indies, Rhodesia, Kenya, Far East and the Continent. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

YOUNG Qualified Accountants required for a large and varied General Practice. Salary according to experience. R. H. MARCH, SON & COMPANY, Chartered Accountants, Baltic House, Cardiff Docks.

APPOINTMENTS REQUIRED

AVAIL yourselves of our services in filling your Staff Vacancies—COMMERCIAL or PROFESSIONAL. Selected Applicants only. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1978.

POSITION required as Senior Audit Clerk with a London firm of Accountants by a West African Final Student. Apply Box No. 413, c/o ACCOUNTANCY.

SENIOR AUDIT ASSISTANT (27), exceptionally wide experience, seeks progressive position with professional firm, preferably Incorporated, in West of England, with prospects of ultimate partnership. Box No. 412, c/o ACCOUNTANCY.

MISCELLANEOUS

A FAMOUS Mutual Life Assurance House needs a few men of drive and integrity to act as Agents. Accountants and their assistants have the right contacts and can best serve their "Mutual" interests. Further details from Box No. 337, c/o ACCOUNTANCY.

NAME PLATES FOR ACCOUNTANTS, in bronze, brass and plastics.—Send wording and size for free estimate and layout to ABBEY CRAFTSMEN LTD., 78 Osnaburgh Street, London, N.W.1. Tel. EUSton 5722.

OLD ESTABLISHED Building Society with high reserves and liquid funds requires additional investments to keep pace with its growing mortgage department. Applications for a limited number of investment agency appointments are invited from professional accountants. Write for particulars to Box No. 315, c/o ACCOUNTANCY.

WAKEFIELD COLLEGE OF INCOME TAXATION LIMITED offers SPECIALISED postal tuition for those who wish to SPECIALISE in Income Taxation. Course for the Associateship Examination of the Institute of Taxation. Also non-examination courses. Prospectus free from the Principal, Dept. A6, 29 Barstow Square, Wakefield.

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